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A STUDY OF TEXAS COMMERCIAL TITLE INSURANCE PRICES

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This report evaluates estimated title insurance charges for property that cost between one and ten million dollars in Texas, versus title costs in nine other states. The \$1-\$10 million-dollar range of mortgage or property costs represent lower-priced commercial property, expensive homes, estate or land purchases. In the discussion below, title costs associated with purchases in the \$1-\$10 million range will be referred to as ‘commercial title insurance’ as a shorthand expression. The results show that property owners in Texas pay more for commercial title insurance in Texas than in comparison states. The increase rate, how the cost of commercial title insurance increases with each increase in mortgage amount, is higher in Texas than in comparison states. These differences reflect the fact that the State of Texas requires title insurers to charge at rates set by the State of Texas, which does not permit price competition among title insurers or title agents.

Background to the Study

In previous research the authors reported that the prices of Texas title insurance are significantly higher than rates in most other states for mortgages or sales below one million dollars. That initial study documented with robust empirical evidence from three independent data sources that title cost differences can best be explained by Texas’ promulgation of title insurance rates: the state setting a lower bound or minimum charge. Those results reflected an analysis of three independent sources of information on title insurance prices: a large random sample of sales of homes among the fifty states; a set of estimates of title charges by state, as collected from a title insurer’s website; and an estimate of closing costs from the website of a major bank. Actual title expenses in Texas are even greater than the promulgated minimum rates, as title agents and insurers can require property owners to pay for endorsements, a diverse and increasing set of supplemental title insurance charges above the mandated comprehensive rate.

This study examines estimated title insurance charges for more expensive properties, with purchase prices or mortgages between one and ten million dollars. Those mortgages or property prices were selected to represent sales of commercial property, land, expensive homes, or estates up to ten million dollars. The question posed is: ***do title insurance prices for commercial properties increase in Texas at rates higher than in other states?*** The study compared Texas rates to those of nine other states: Florida, Illinois, Indiana, Iowa, Kansas, New Mexico, New York, Pennsylvania and Tennessee. Those nine states were chosen because of their diversity in size, urban concentration, and title insurance rates. Some of the nine are states with relatively high title insurance rates, while other states offer relatively low title rates. The list of states includes both large and small states, states with a large urban population and states with a large rural population, and states with different styles of regulation of their title insurance markets. If an analysis of commercial title insurance rates were to be conducted for all 50 states instead of the ten listed here, based on the previous study’s results, the inferences about title rates in all 50 states would confirm the results below for the evaluated ten states.

Data

No state distinguishes between residential and commercial sales in the computation of title insurance charges. Each state authorizes title payments based on the value of the property or the

value of the mortgage, as declared by the buyer (for a buyer's insurance policy alone) or the mortgage lender (for a lender's insurance or a simultaneous purchase of a lender's and buyer's title policy). Given the limited time available to the investigators, it was beyond the scope of this analysis to collect title rates from all 50 states.

For nine of the states, data were collected from the Stewart Title Insurance website that allows a user to input a mortgage price and a location. The website allows a user to compute an estimated cost of title insurance for that jurisdiction. The investigators collected the expected price for title insurance for properties valued at between 1 and 10 million dollars, in steps of \$0.5 million, from nine states. As discussed above, those states were chosen to provide diversity in population size, urban/rural population distribution, style of title insurance regulation, and relative title insurance expenditures, based on previous studies. The goal was to provide a fair and thorough comparison of title insurance rates between Texas and other states. Data were collected both for a lender's title insurance, the most frequent title policy because it is required by lenders to proceed with a mortgage, as well as for simultaneous issuance of a lender's and a buyer's title policy. The rates on the Stewart website include the title costs as calculated in each state, which reflect the underlying title insurance regulations as well as services offered. For example, in Texas the computed rates include both the title agent's fees and the title underwriter's charges for inclusive service: title search, title preparation, underwriting and insurance, as well as closing of the sale. Previous studies have documented in detail how the type of title industry services offered do not affect title insurance prices among states; rather the style of state regulation is the single most important factor in setting title insurance prices after the value of the mortgage.

The title costs in one state, Iowa, were computed directly from state regulatory policy. Iowa offers an Iowa Title Guarantee, which Iowa's banks and other mortgage lenders accept as equivalent in coverage of all title risks to title insurance sold by private corporations. Iowa sells its Guarantee based on an abstract and an attorney title opinion, which require a property purchaser to pay costs beyond the Guarantee. For any residential title transaction, Iowa charges \$110 for coverage of up to \$500,000, with most common endorsements offered at no charge. For sales or mortgages over \$0.5 million, Iowa charges an additional \$1 per thousand, or an incremental rate of increase of \$1,000 per \$1 million increase in property price or mortgage. For any refinance, second mortgage or other non-purchase residential transaction, Iowa charges \$90 for its Guarantee. Iowa provides an Owner's title guarantee at no charge if the buyer has requested lender's coverage, the home is valued at \$500,000 or less, and the buyer intends to occupy the home as a primary residence.

The results of this investigation are displayed in tables and figures in the Appendix. Table 1 summarizes the study results through regressions comparing Texas' title insurance rates with those of the other nine states. It lists the marginal change in title insurance prices per million dollars change in mortgage or purchase for each comparison state versus Texas policies. This table and figures report both on rates for lenders' title policy and simultaneous sale of lenders' and owners' policies. Figures 1 to 9 show costs of simultaneous lenders and buyers title policies in each of the 9 comparison states relative to Texas title costs for mortgage amounts of from one to 10 million dollars. Figures 10 to 18 illustrate the cost of lenders' title policies in compared to the other 9 comparison states relative to Texas' lenders premiums for mortgage from one to ten million dollars. Figures 19 through 38 show how the price of simultaneous title insurance

(lender's plus buyer's) or the prices for lender's insurance alone increase in price, for mortgage amounts of \$1 to \$10 million. Figures 39 to 48 illustrate equations that estimate how lender's premiums rise by state by mortgage size, for mortgage amounts between \$1 to \$10 million. Figures 48 through 58 graph the equations that estimate how costs of simultaneous lender's and buyer's title policies increase by state, between property values of \$1 and \$10 million mortgage.

Results

The estimated costs for title insurance increase in all states from a \$1 million to \$10 mortgage (or equivalent cash property purchase). States with higher initial title costs at a \$1 million mortgage, such as Texas or Florida, typically have title rates that increase in absolute amounts more than in states where the title policy charge are lower for a \$1 million mortgage. The rates of increase in title insurance (for either lenders' policies or simultaneous lenders' and owners' policies) are unique to each state.

Table 1 lists a set of interaction terms showing how prices for lenders' title policies increase among each of the nine states as compared to Texas. In Texas, promulgated title insurance prices (Texas required minimum charges) increase at a rate of \$4,577.1 per \$1 million dollars of increased mortgage, or \$4.58 in increased charges per each thousand-dollar increase in a mortgage, which is approximately one half cent of increased title charge for each dollar increase in the mortgage. Comparing Texas' lenders' title policy rates with the lenders' policies in the other nine states, Texas' title insurance prices are higher than any other state. Also, the rate of increase in Texas title insurance rates exceed those of other states.

The state with the second highest rate of increase in the lenders' title insurance increase is New York, where its lenders' title insurance rates increase at a rate of \$3,121.6 per million increase in a mortgage, or \$1,446 per incremental million mortgage less than Texas. The New York rate of increase is 68 percent of the Texas rate of increase, which means that a property purchaser in Texas pays approximately one and a half times more (1.477) for each million-dollar increase in property value in Texas than in New York. Another example is Florida which, like Texas, is a state that promulgates minimum title rates. The coefficient of "Florida" * Amount (million) is 1,695.1, which means that Florida has a rate of increase in lenders' title policy prices that is \$1,695.1 lower than Texas' rate of increase, holding all other factors constant, values which are significant statistically.

The state with the second lowest rate of increase in the lenders' title insurance increase (excluding Iowa, which has its own state Guarantee system) is Kansas. Kansas' lenders' title insurance rates increase at a rate of \$1,113 per million increase in a mortgage, or an increase of \$3,464 per million less than Texas. This means that a property purchaser in Texas pays over 4 times (4.11) the rate of title fee increase for each million-dollar increase in property value in Kansas versus Texas. As indicated above, the rate of increase in title insurance rates in Iowa is \$1,000 per \$1 million increase in property value.

For a simultaneous lender and owner title policy transaction, (see Table 2), the interaction terms indicate that Texas is not the state with the highest rate of increase in title insurance charges per million-dollar increase in mortgage costs: that honor is New York's. New York's rate of price

increase per million in incremental mortgage is \$59.58 more than Texas' \$4,628.1 per million of mortgage increase, or 1 percent higher; the difference, while modest, is still significant. However, Texas rate of title insurance increase for simultaneous lenders' and owners' policies is still thousands of dollars higher per million in incremental mortgage than any of the other 8 states. For example, the coefficient of "Florida* Amount (million)" in is -\$1,706.1, which means that Florida has a statistically significant lower rate of increase (\$1,1706.10 per million mortgage cost) in the price of a simultaneous lender/buyer title policy. To continue with the Kansas example, its rate of title charge increase (\$1208.50 per \$1 million in incremental mortgage) is 26 percent of Texas' rate of increase. A Texas commercial property purchaser will pay for each 1 million in increased mortgage 3.8 times the increase than a person who purchases commercial property in Kansas.

The significantly higher cost of title insurance in Texas for commercial properties undermines the Texas economy because property purchasers must pay more for title insurance to conclude a purchase in Texas versus other states. The real non-risk related costs of issuing a title insurance policy -- the title agent expenses, the title underwriter's expenses, title search costs, title preparation expenses, underwriting process charges, as well as costs of closing a sale -- are all more than paid for by the title insurance fees for the first million dollars of mortgage. Any increase in title insurance rates for a purchase over \$1 million ought to reflect only increased underwriting risk: insurance goes up to protect the underwriter from increased risk associated with an increased property value. The authors know of no evidence that Texas' rate of increase of \$4,577 in title costs per million in incremental mortgage represent the value of risk of an additional one million in mortgage, rates which are state promulgated.

Ought Texas property owners pay an incremental \$4,477 in lenders' title insurance rates for each incremental one million dollars in mortgage value? Iowa charges for the incremental risk just \$1,000 in lenders' Title Guarantee charges per million mortgage in increased risk charges; according to its records, Iowa makes money every year by selling its guarantees. The identical for-profit title insurance companies that sell title insurance in Kansas charge an incremental \$1,113 of increased underwriting charges; they report profits every year in Kansas. Texas' promulgation or setting of its lower bound on title insurance rates and prohibiting competition are the reason why the same commodity -- risk insurance per million in increased mortgage size -- cost \$4,577 in Texas and \$1,113 in Kansas.

Another way to compute the value of the risk of an incremental one million dollars in mortgage is to observe the secondary insurance market. Title insurers often use so-called co-insurers to purchase the incremental risk for expensive title insurance policies. The co-insurance rates, or what insurers charge to cover the incremental risks of title for large mortgages, are below even Iowa's \$1,000 in added risk-protection per 1 million increase in mortgage size. Iowa has a policy to sell the risks of its large title guarantees to co-insurance companies; those co-insurers make a profit covering those incremental risks.

Conclusions

1. For expected title rates for a lender's title policies for commercial property purchases, Texas has higher rates than all the other states.

2. The rate of increase in expected lender title costs in Texas exceeds the rates of increase in all other states.
3. Texas' policy of setting a lower bound on title prices (promulgation) leads to much higher commercial property lenders' title prices and a higher rate of title policy increase.
4. Even though Texas' lenders' title insurance rates are higher than other states' rates, the comparative disadvantage of buying property in Texas become even more pronounced with commercial real estate, large land purchases, or expensive homes.

Table 1 Comparison of Rate of Lender's Title Policy and Simultaneous Title Policy Increase Among 10 States

| | (1) Lender's title insurance | (2) Simultaneous title insurance |
|---------------------------------|------------------------------------|--|
| Amount (million) | 4577.1*** (65.63) | 4628.1*** (75.93) |
| Amount square (million^2) | -32.59** (10.50) | -39.99*** (10.34) |
| Florida * Amount (million) | -1695.1*** (6.46e-12) | -1706.1*** (1.65e-11) |
| Illinois * Amount (million) | -2297.2*** (6.25e-12) | -2275.4*** (1.65e-11) |
| Indiana * Amount (million) | -3438.9*** (6.31e-12) | -2817.9*** (1.65e-11) |
| Iowa * Amount (million) | -3545.7*** (6.30e-12) | -3544.2*** (1.72e-11) |
| Kansas * Amount (million) | -3464.1*** (6.28e-12) | -3419.6*** (1.65e-11) |
| New Mexico * Amount (million) | -1526.9*** (6.31e-12) | -1208.0*** (1.75e-11) |
| New York * Amount (million) | -1445.5*** (6.33e-12) | 59.58*** (1.85e-11) |
| Pennsylvania * Amount (million) | -1641.4*** | -1656.0*** |

| | | |
|------------------------------|--------------------------|--------------------------|
| | (6.31e-12) | (1.65e-11) |
| Tennessee * Amount (million) | -2346.7*** (6.27e-12) | -2354.0*** (1.65e-11) |
| Texas * Amount (million) | Reference | Reference |
| Constant | 1113.1*** (327.7) | 1253.8*** (309.9) |
| N | 190 | 190 |
| R^2 | 0.994 | 0.996 |

Robust and state cluster standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Figure 1 Comparison of Simultaneous Premium Between Texas and Florida

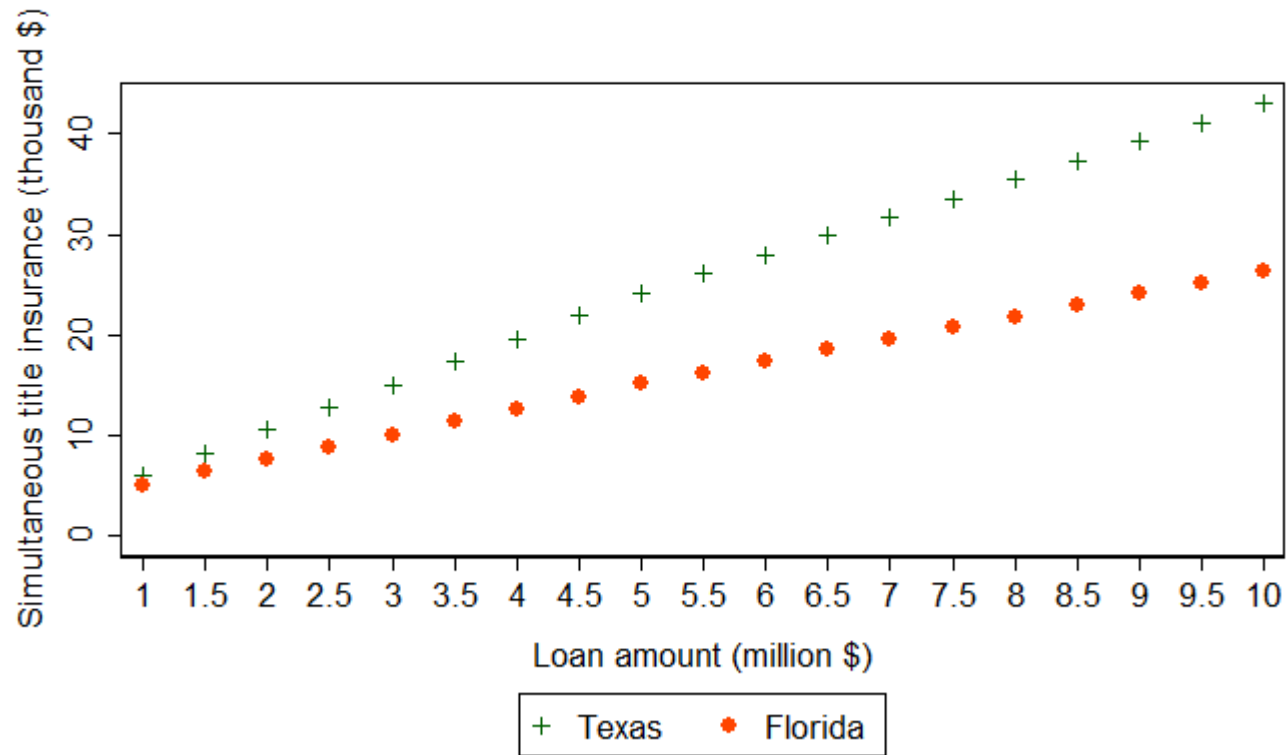


Figure 2 Comparison of Simultaneous Premium Between Texas and Indiana

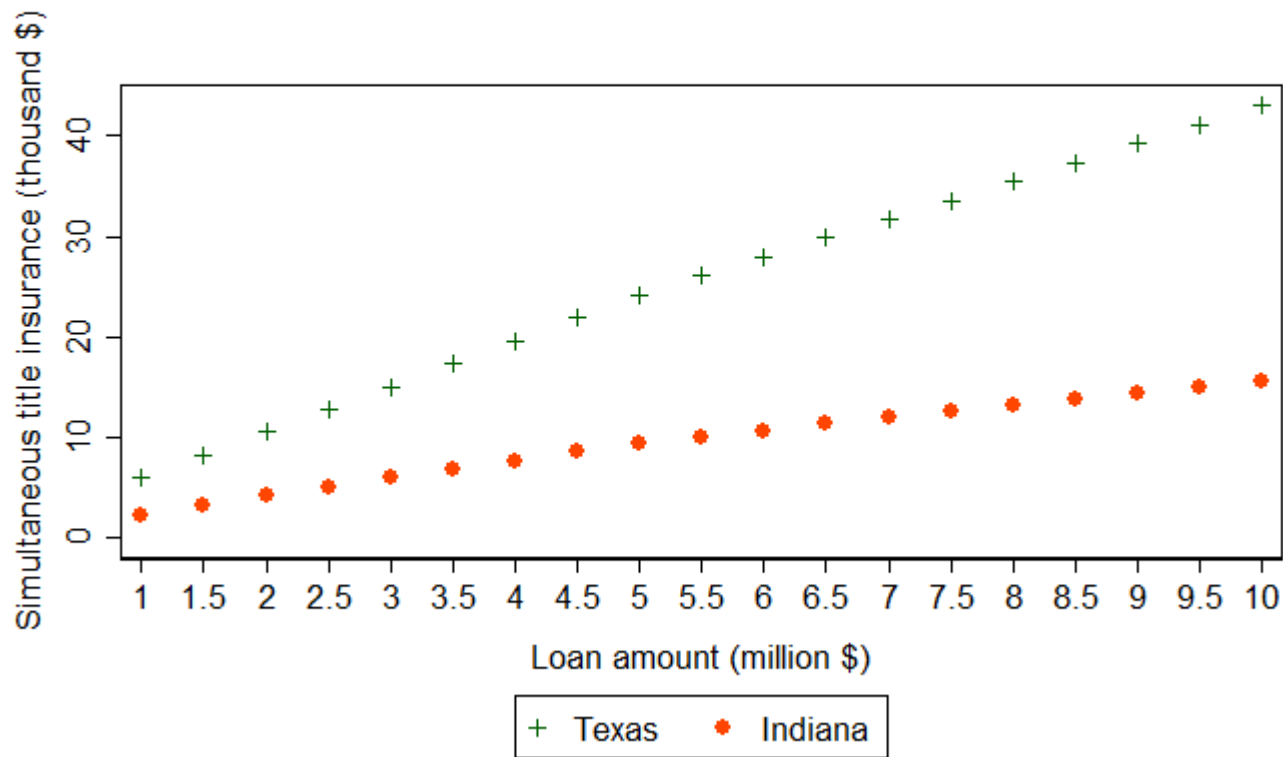


Figure 3 Comparison of Simultaneous Premium Between Texas and Iowa

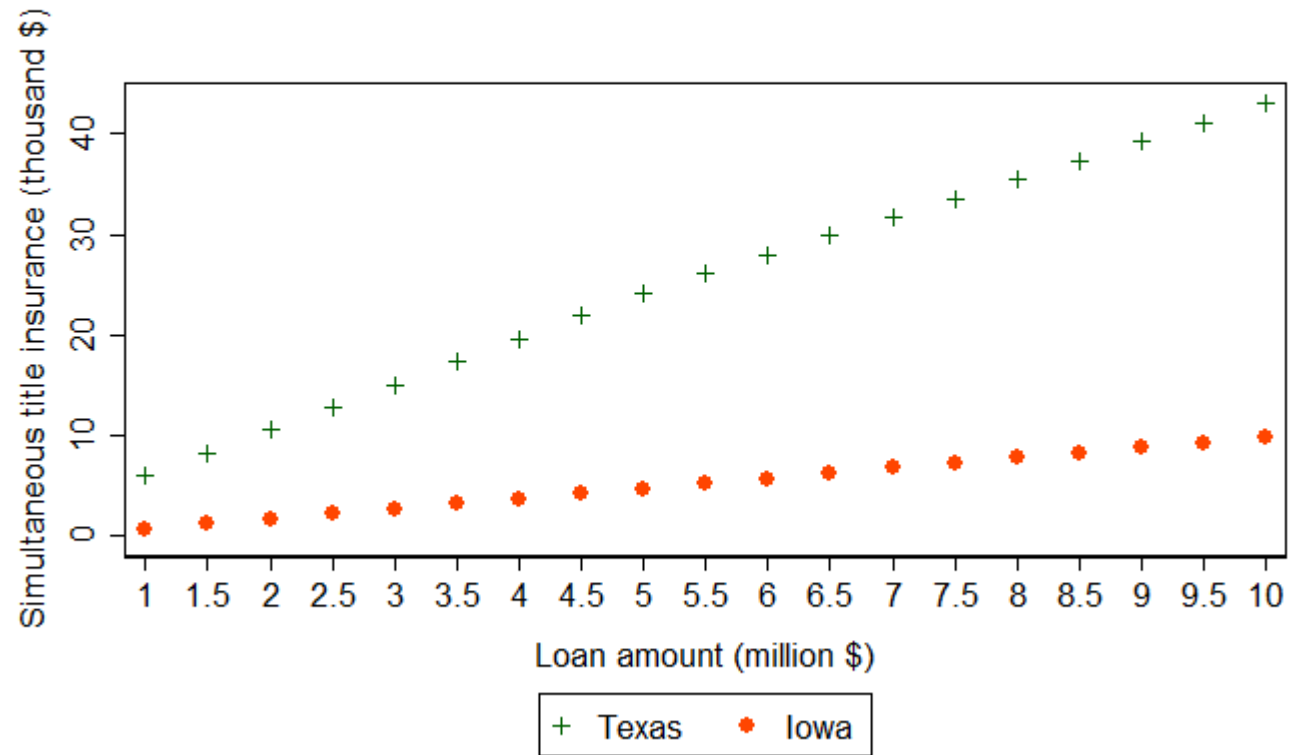


Figure 4 Comparison of Simultaneous Premium Between Texas and New Mexico

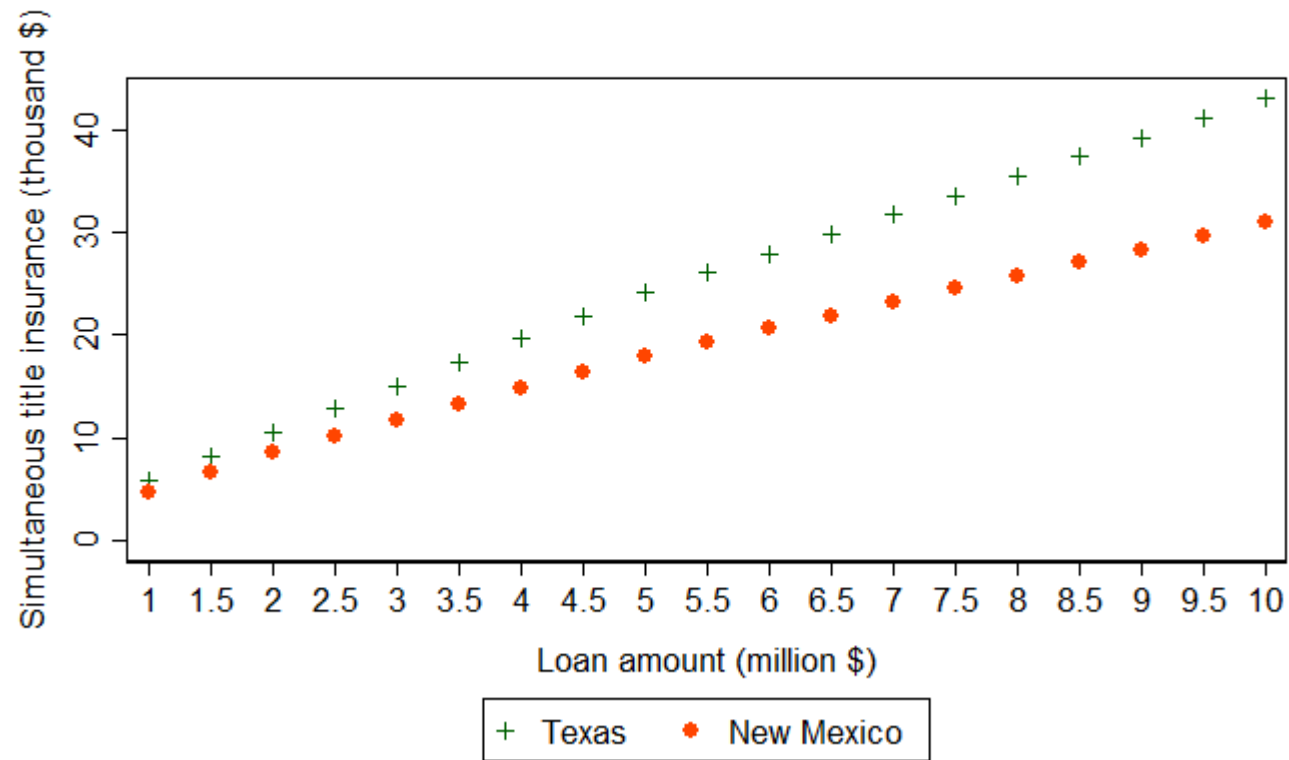


Figure 5 Comparison of Simultaneous Premium Between Texas and New York

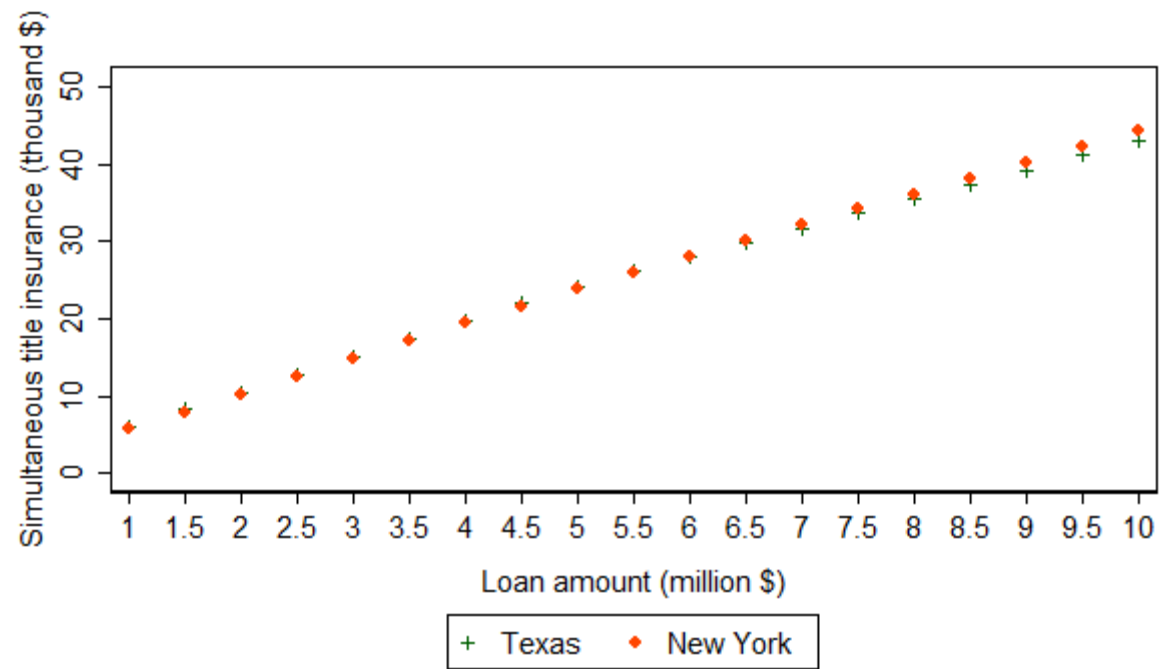


Figure 6 Comparison of Simultaneous Premium Between Texas and Pennsylvania

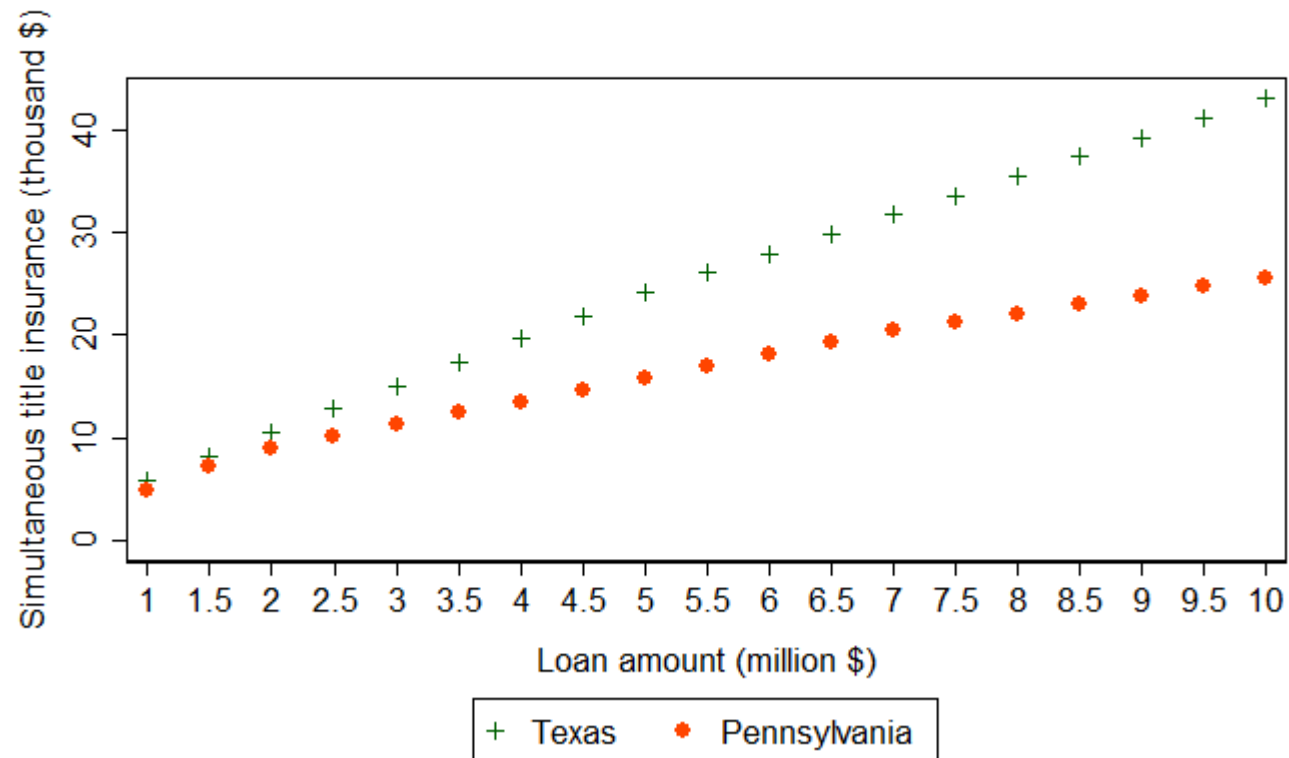


Figure7 Comparison of Simultaneous Premium Between Texas and Tennessee

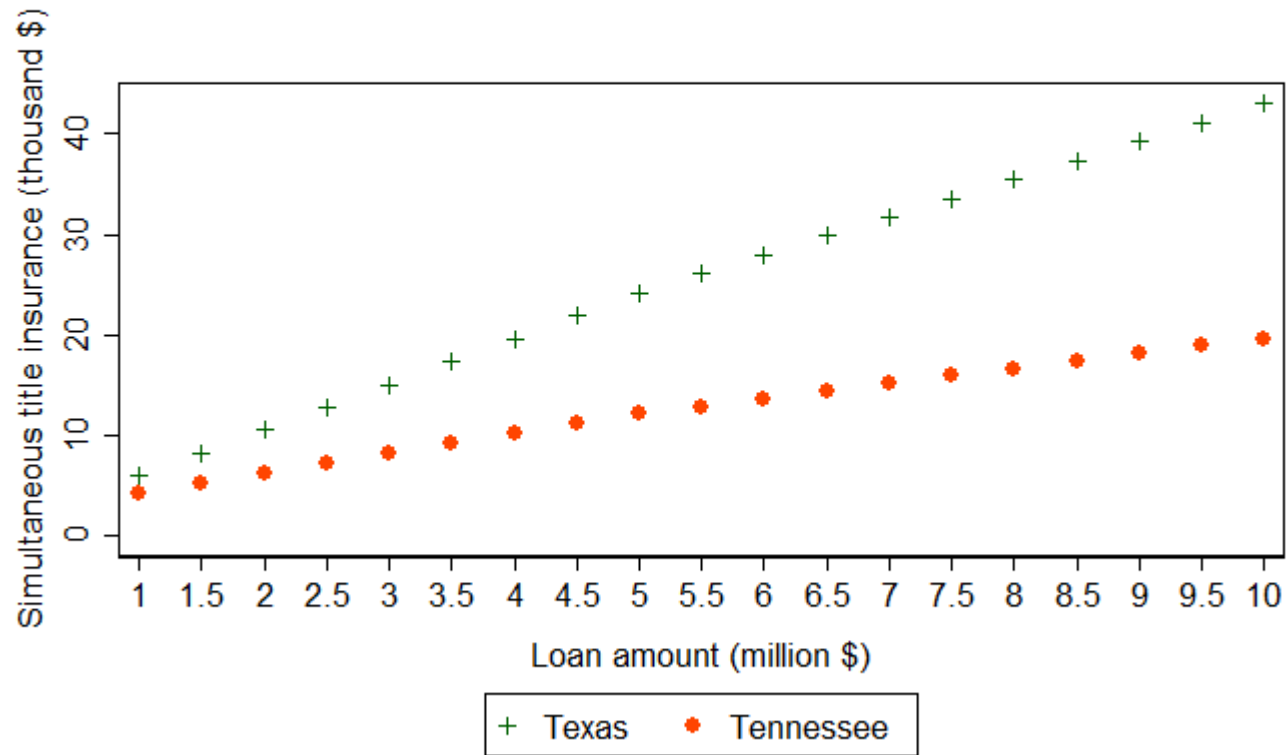


Figure 8 Comparison of Simultaneous Premium Between Texas and Illinois

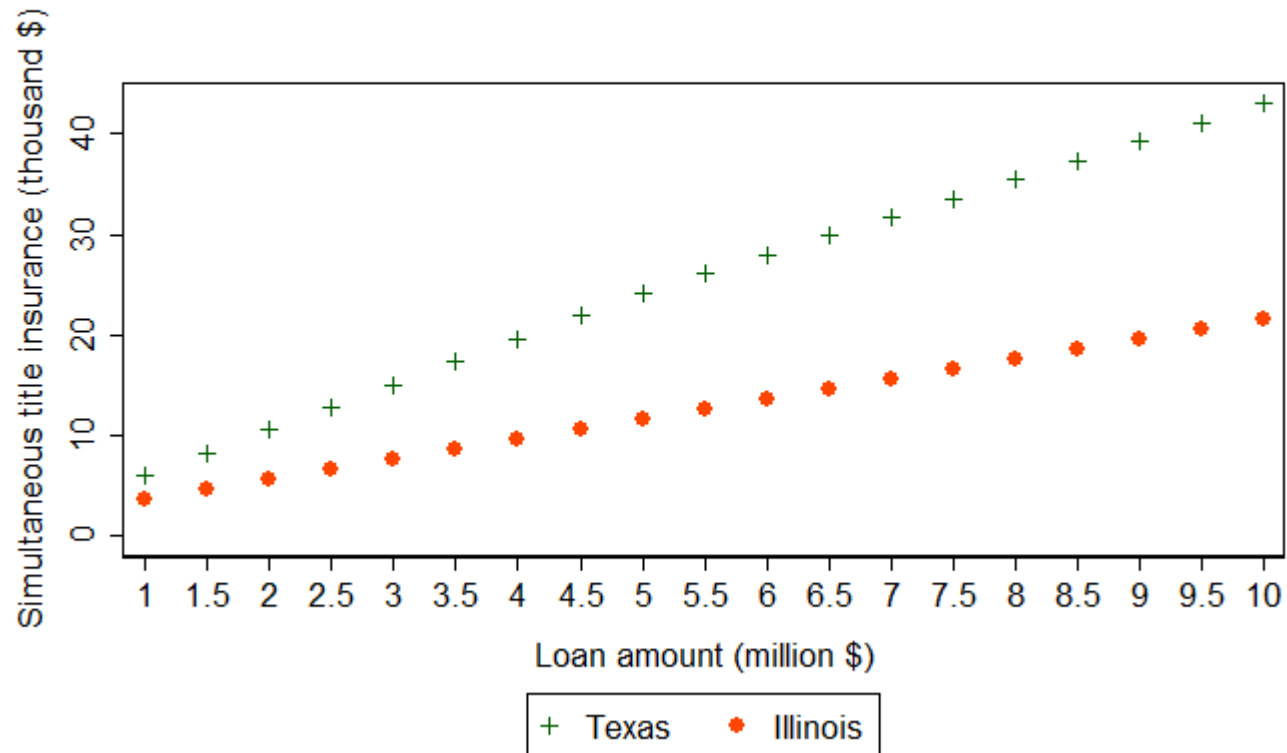


Figure 9 Comparison of Simultaneous Premium Between Texas and Kansas

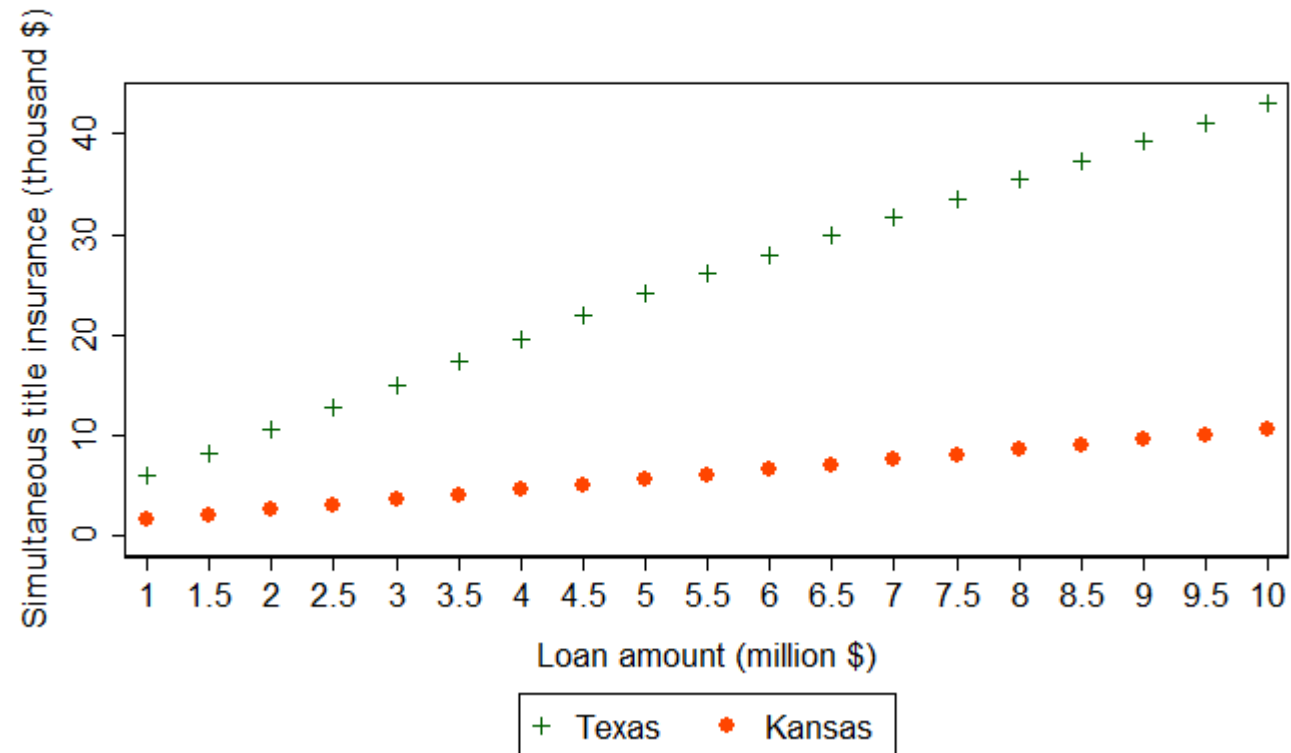


Figure 10 Comparison of Lender's Premium Between Texas and Florida

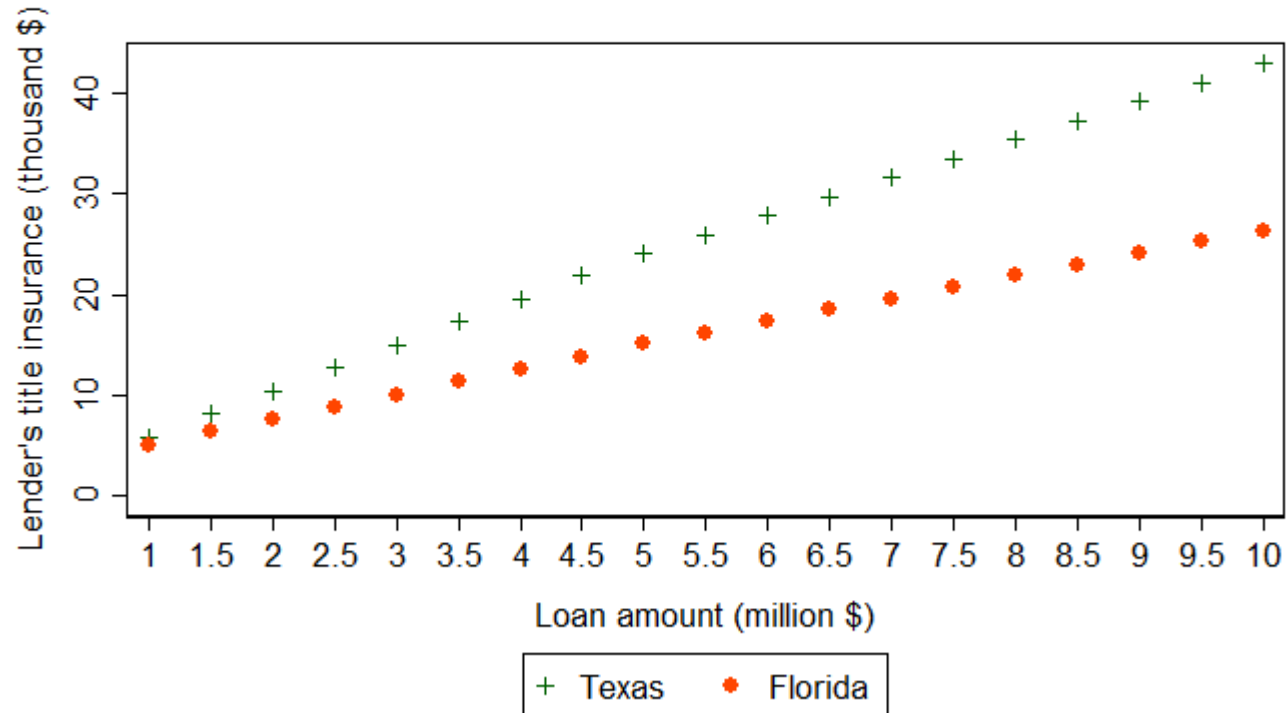


Figure 11 Comparison of Lender's Premium Between Texas and Indiana

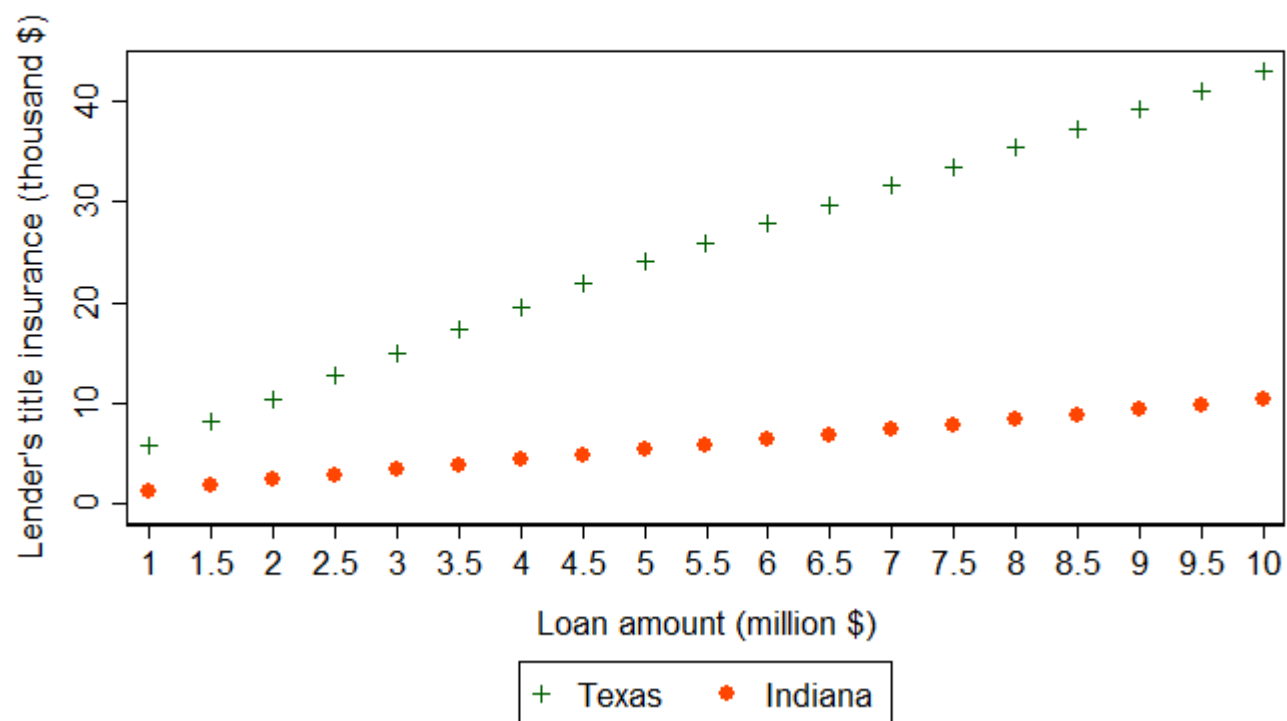


Figure 12 Comparison of Lender's Premium Between Texas and Iowa

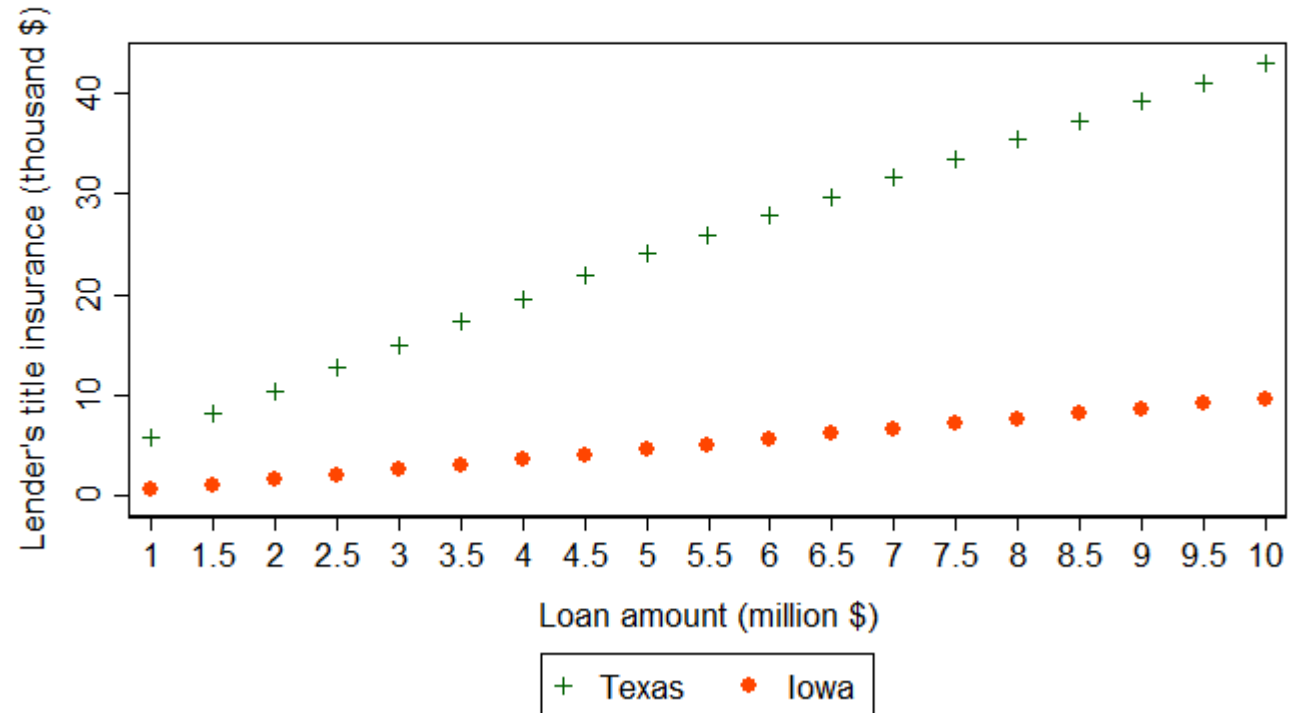


Figure 13 Comparison of Lender's Premium Between Texas and New Mexico

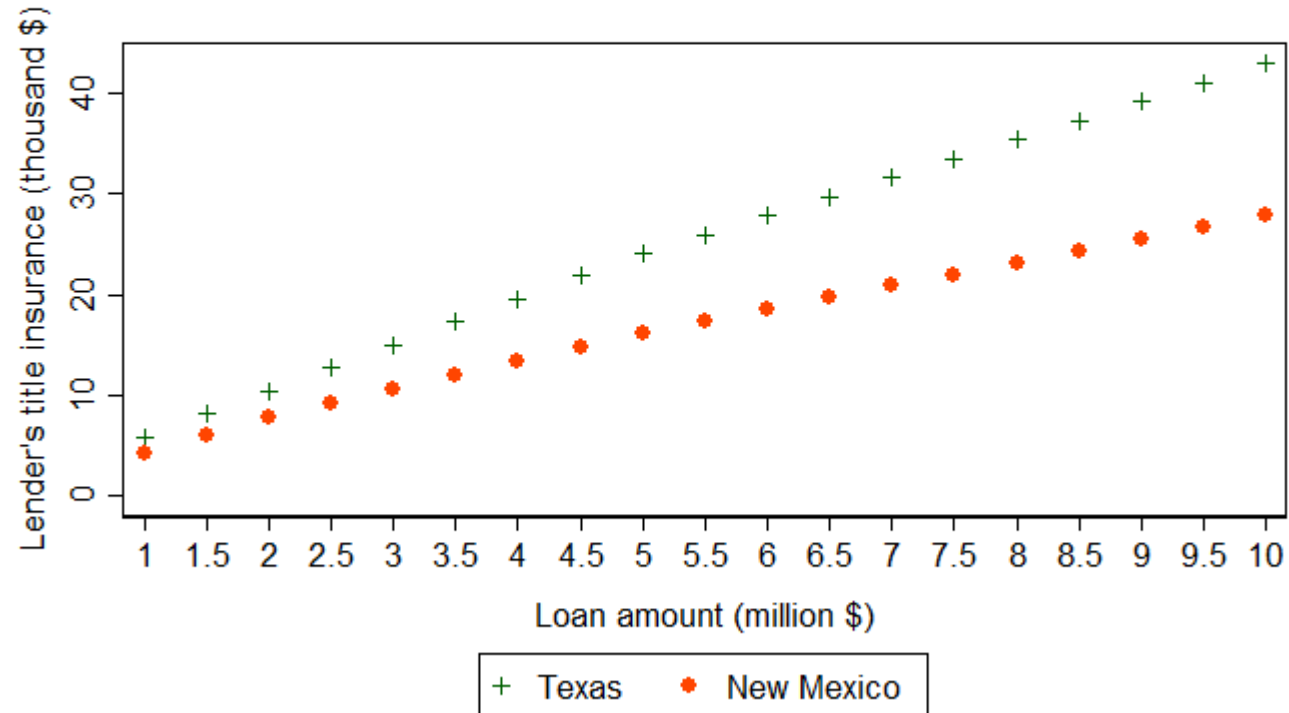


Figure 14 Comparison of Lender's Premium Between Texas and New York

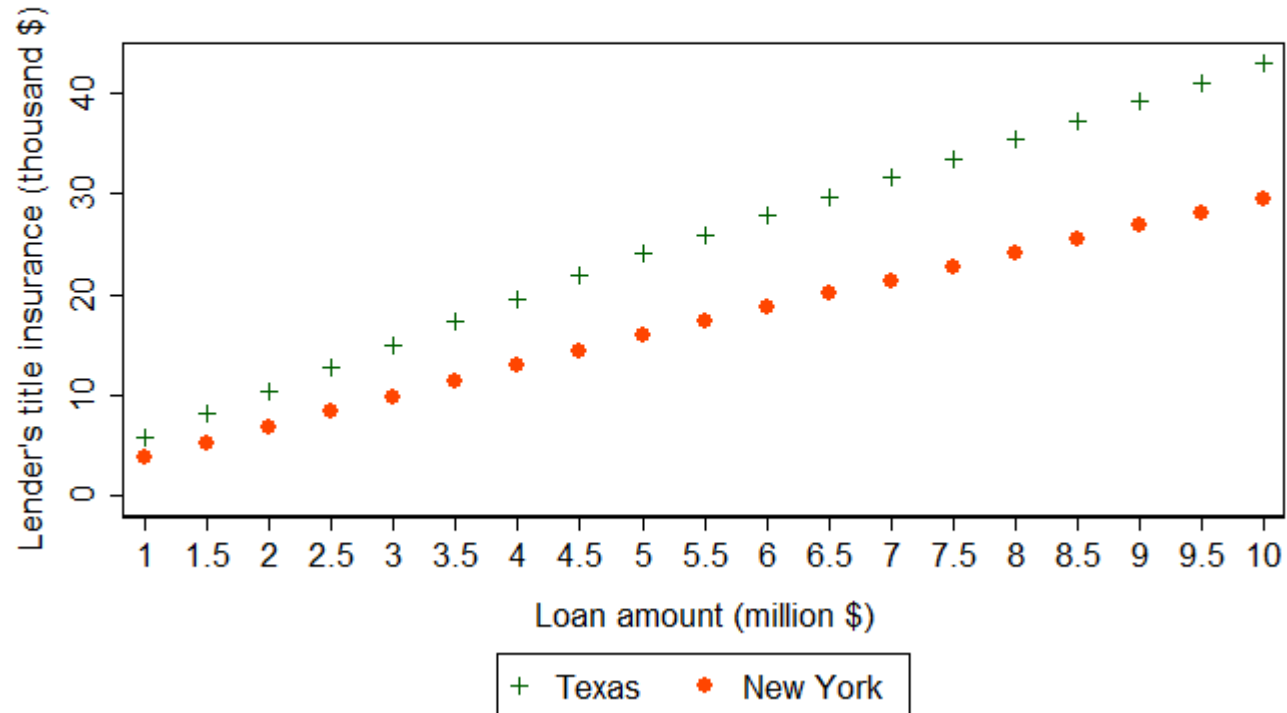


Figure 15 Comparison of Lender's Premium Between Texas and Pennsylvania

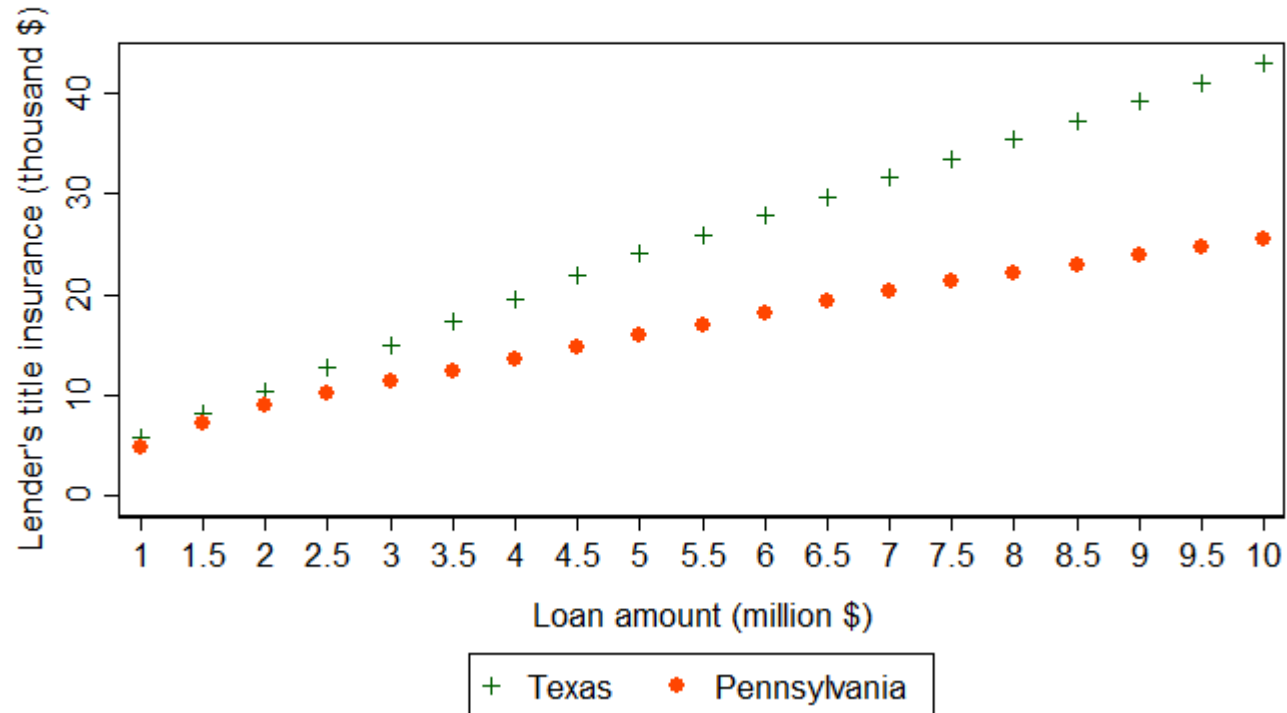


Figure 16 Comparison of Lender's Premium Between Texas and Tennessee

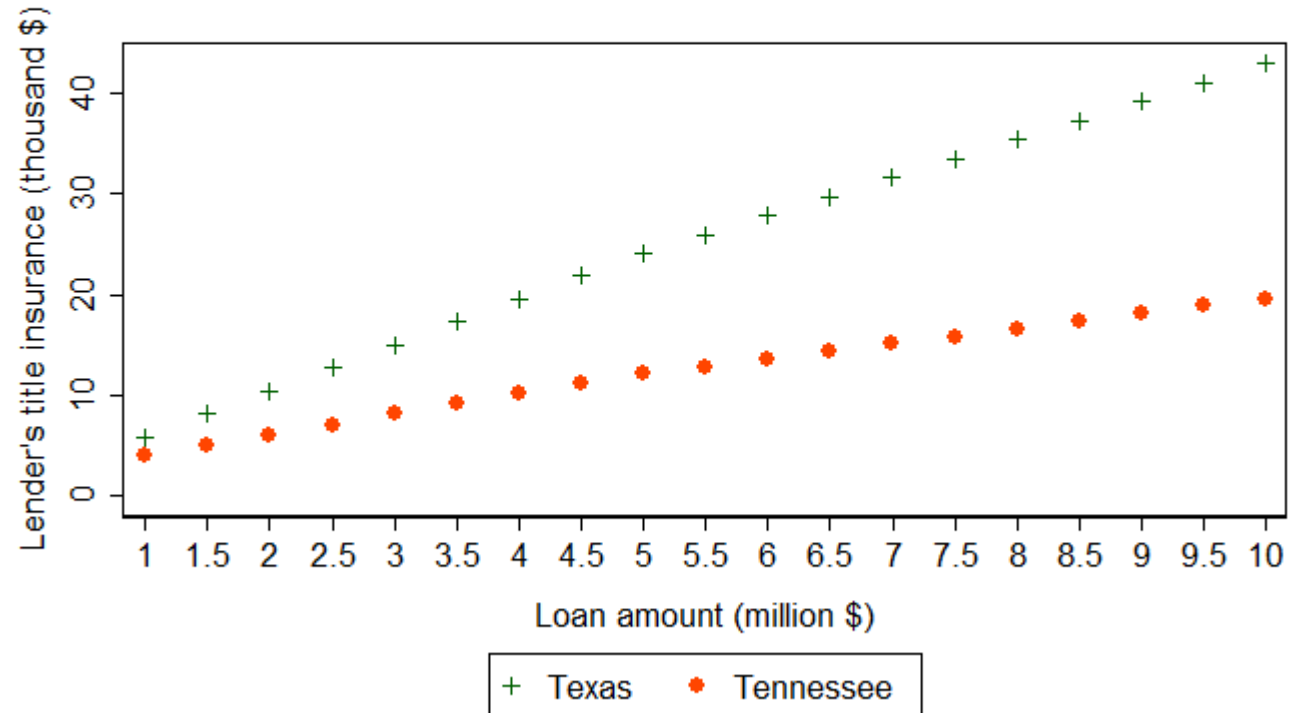


Figure 17 Comparison of Lender's Premium Between Texas and Illinois

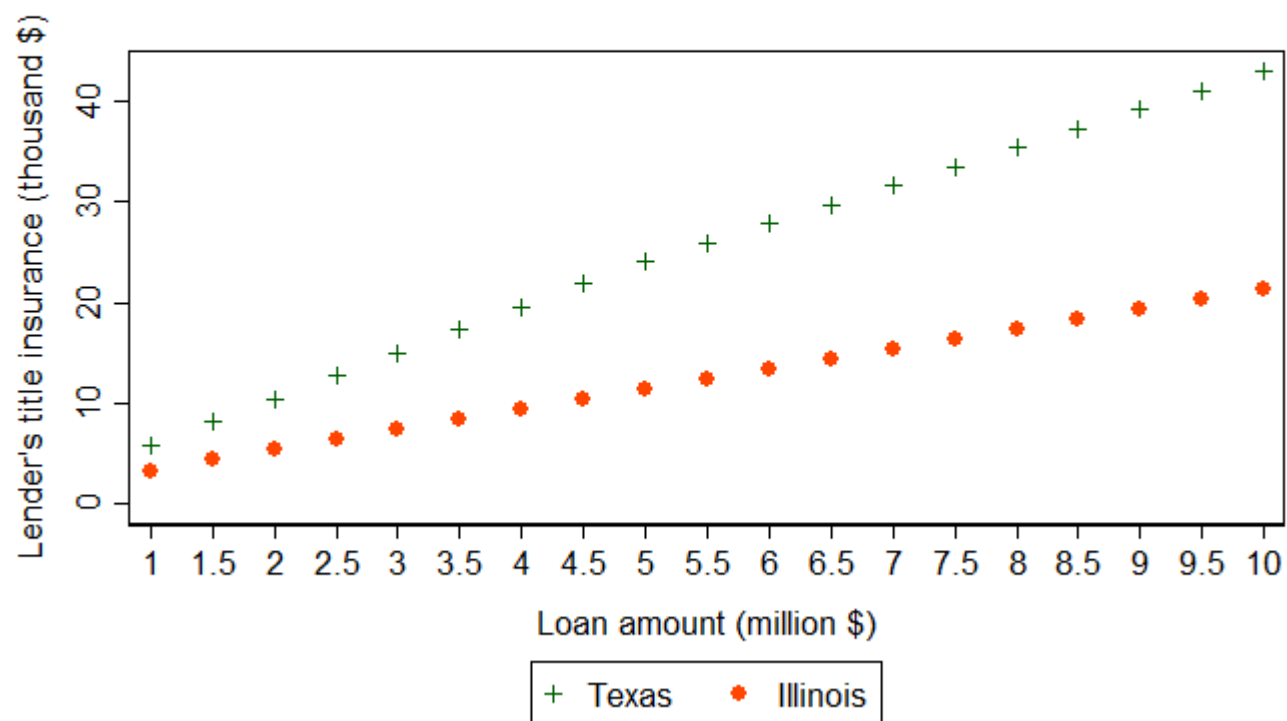


Figure 18 Comparison of Lender's Premium Between Texas and Kansas

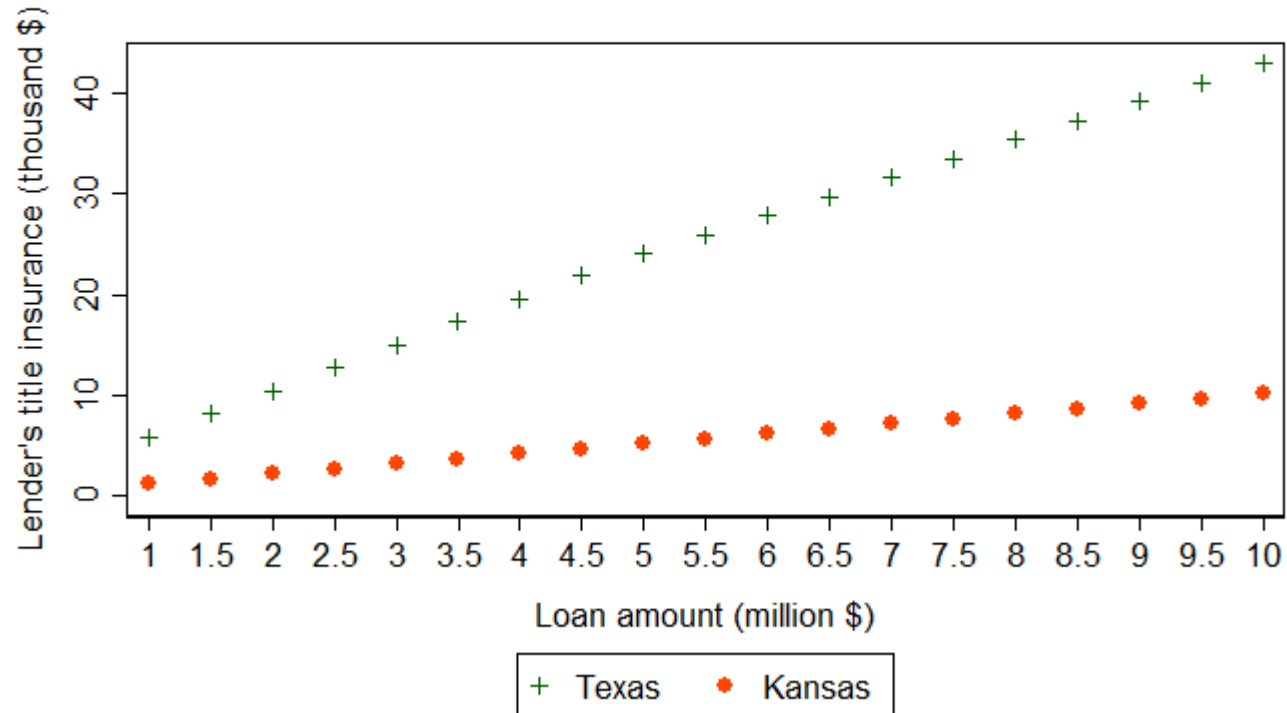


Figure 19 Florida's Simultaneous Title Insurance by Amount

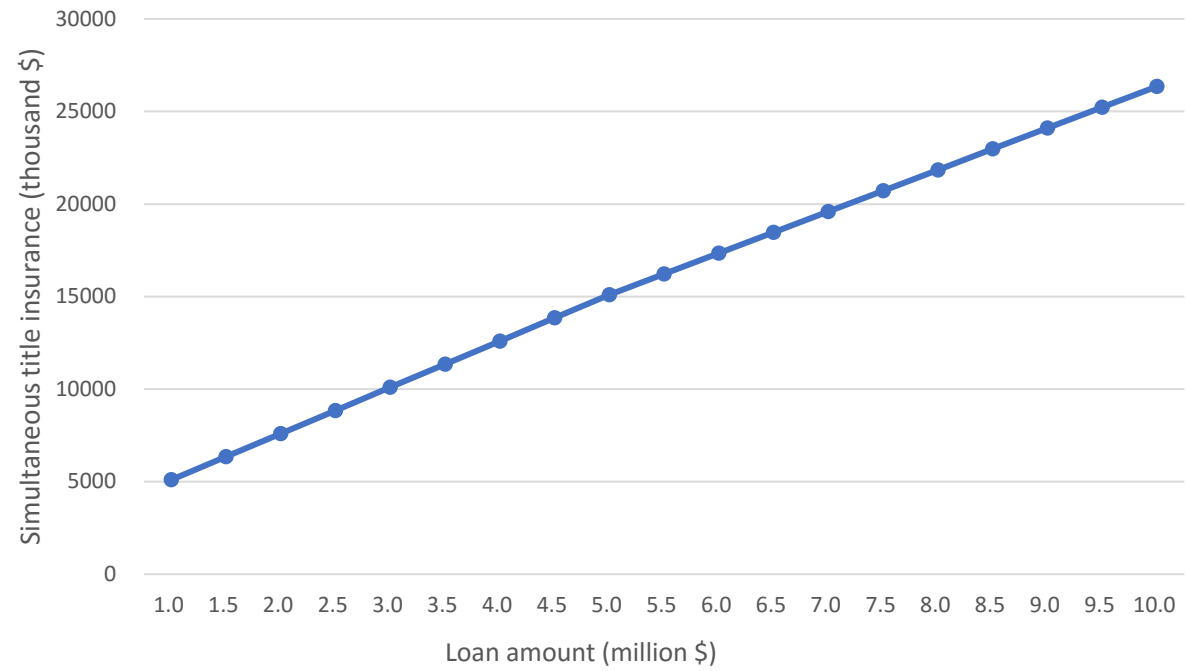


Figure 20 Florida's Lender's title insurance by Amount

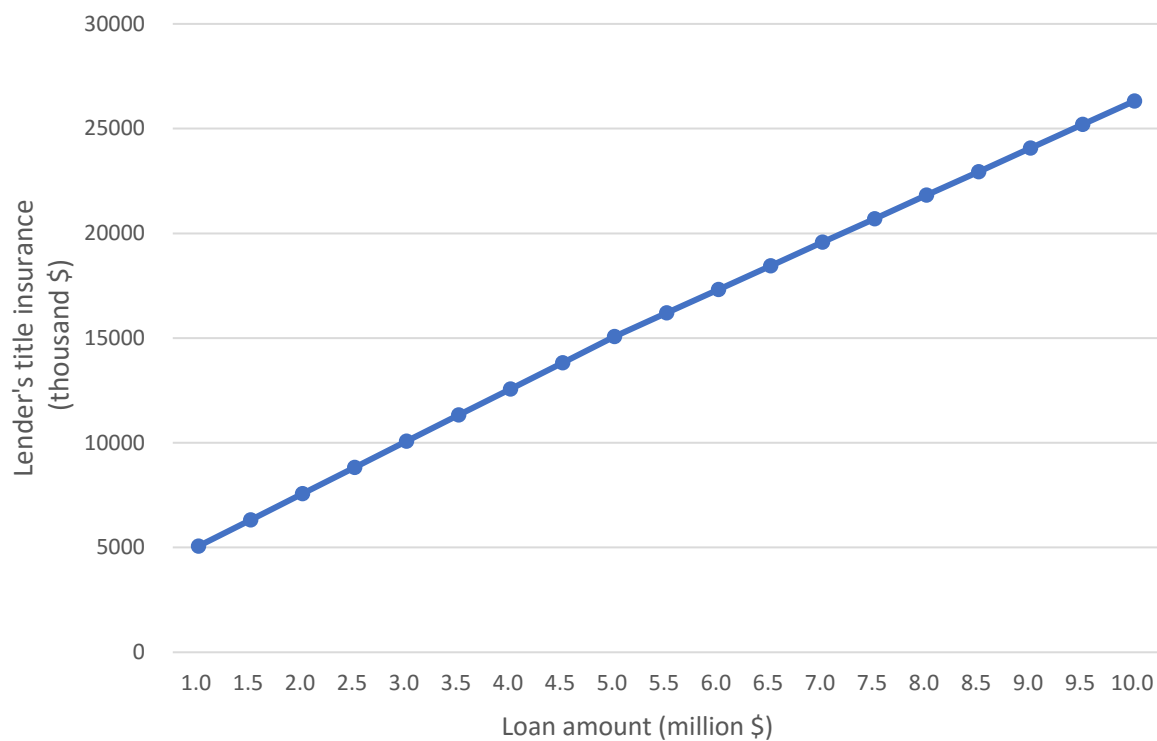


Figure 21 Indiana's Simultaneous Title Insurance by Amount

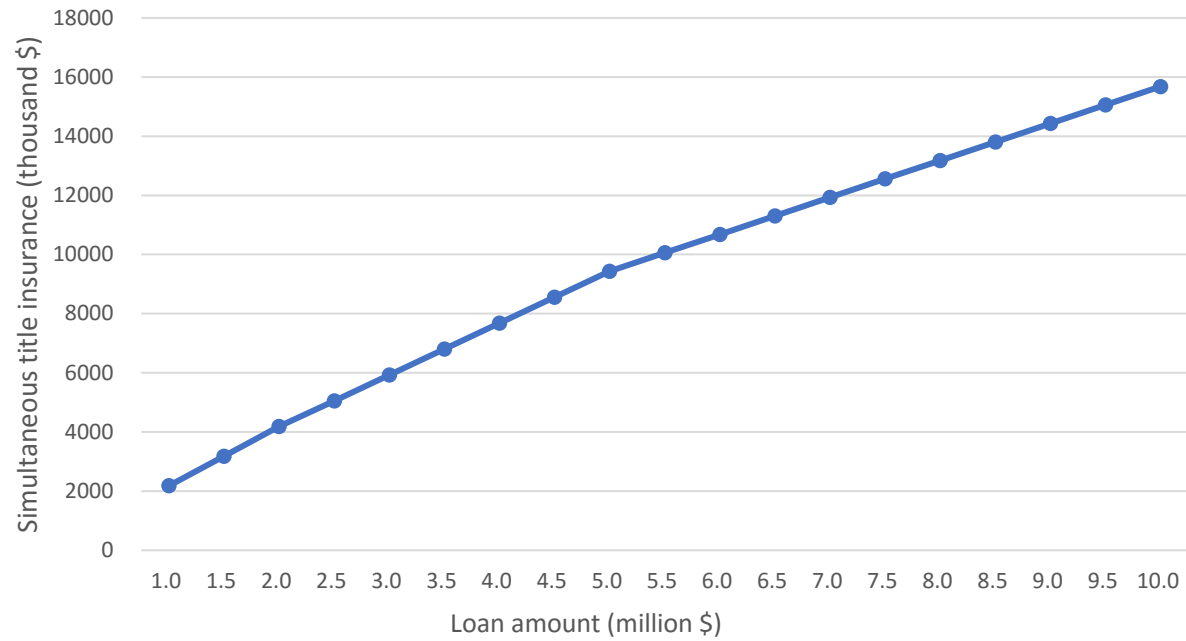


Figure 22 Indiana's Lender's title insurance by Amount

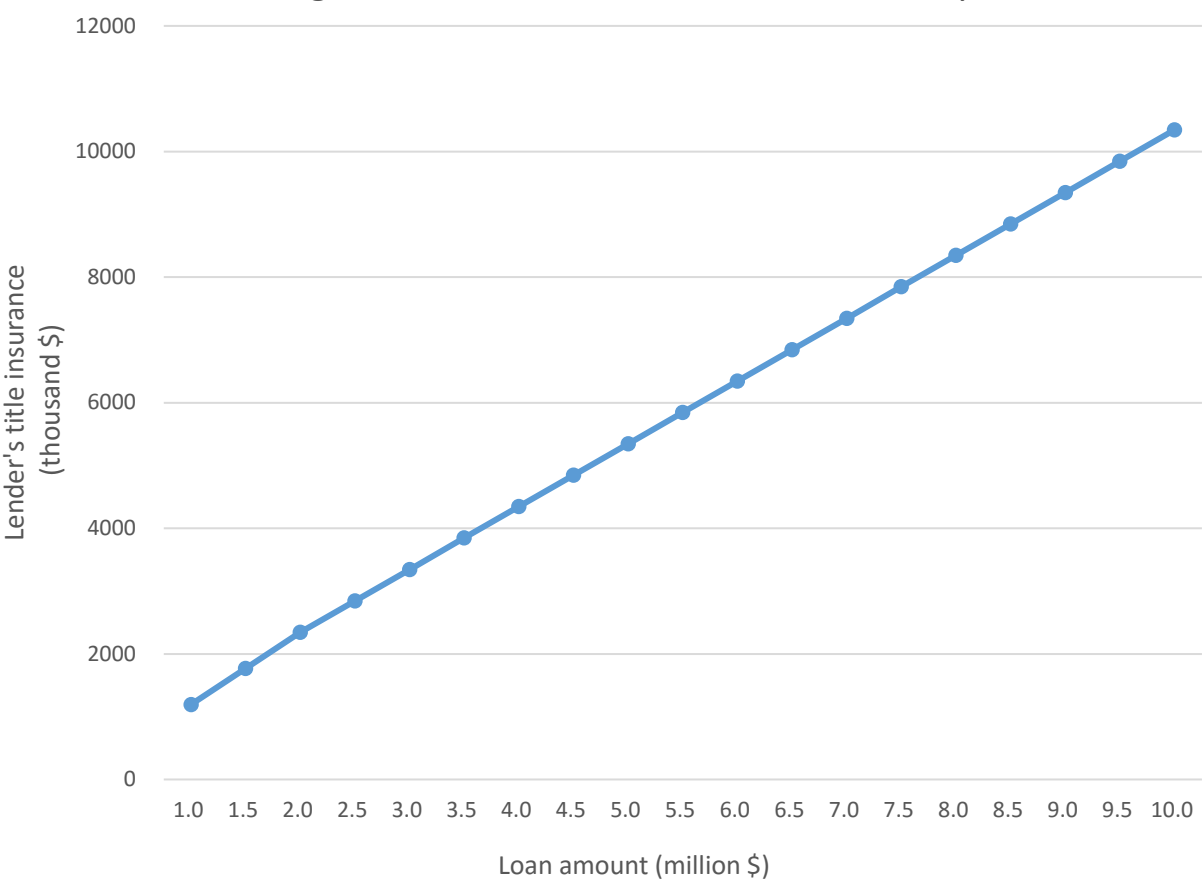


Figure 23 Iowa's Simultaneous Title Insurance by Amount

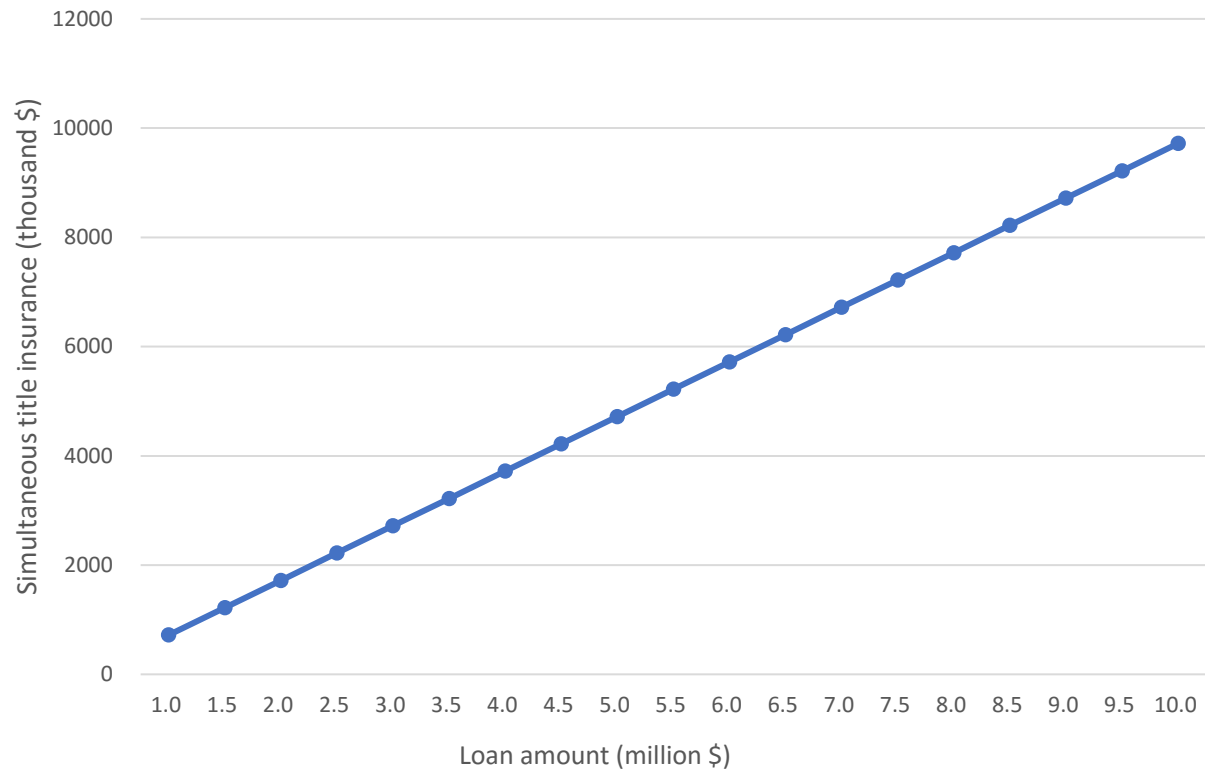


Figure 24 Iowa's Lender's title insurance by Amount

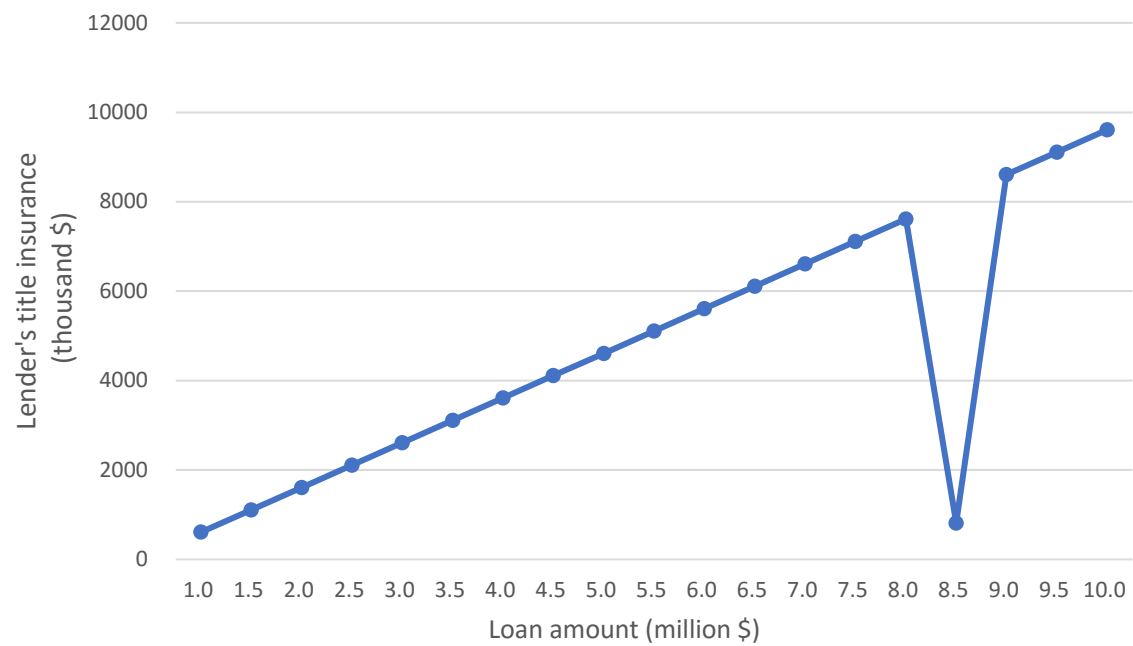


Figure 25 New Mexico's Simultaneous Title Insurance by Amount

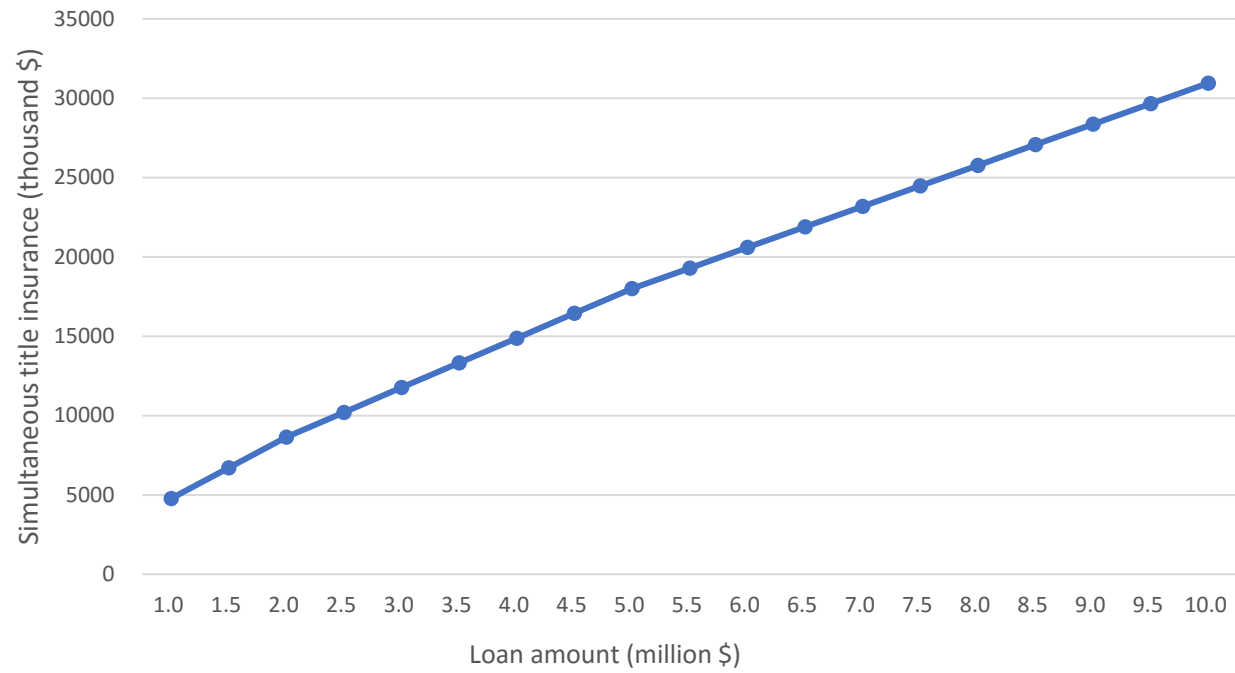


Figure 26 New Mexico's Lender's title insurance by Amount

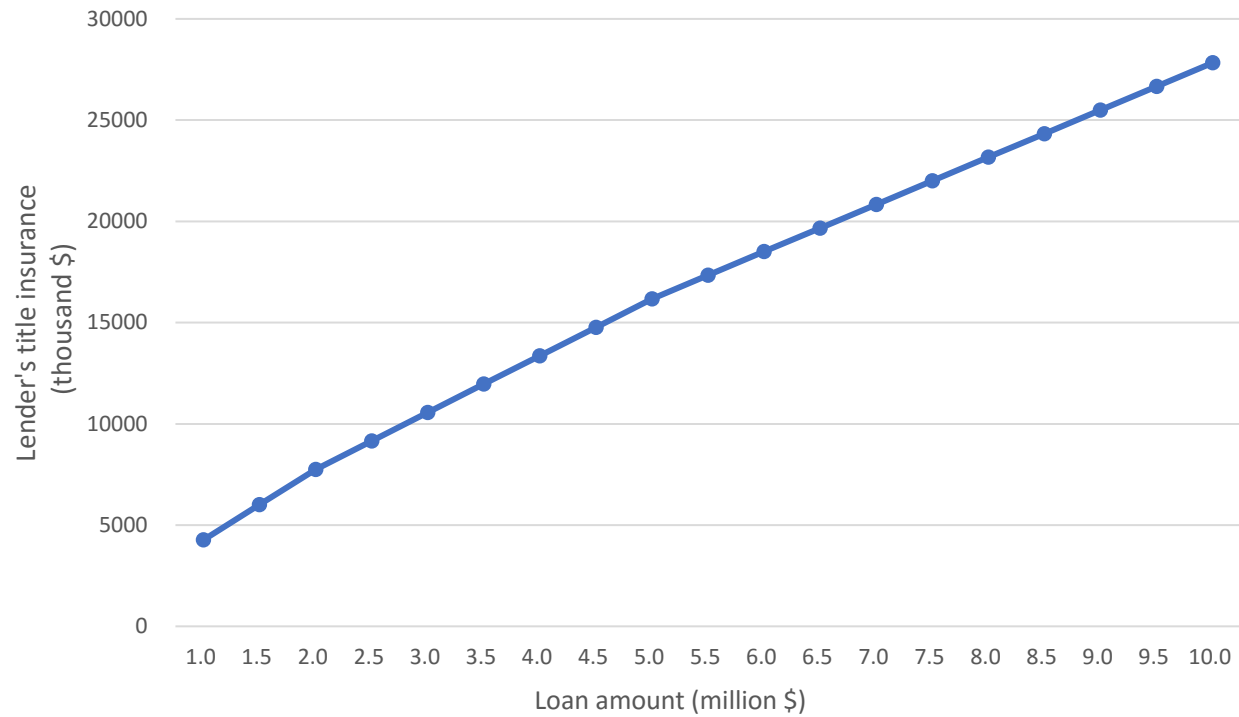


Figure 27 New York's Simultaneous Title Insurance by Amount

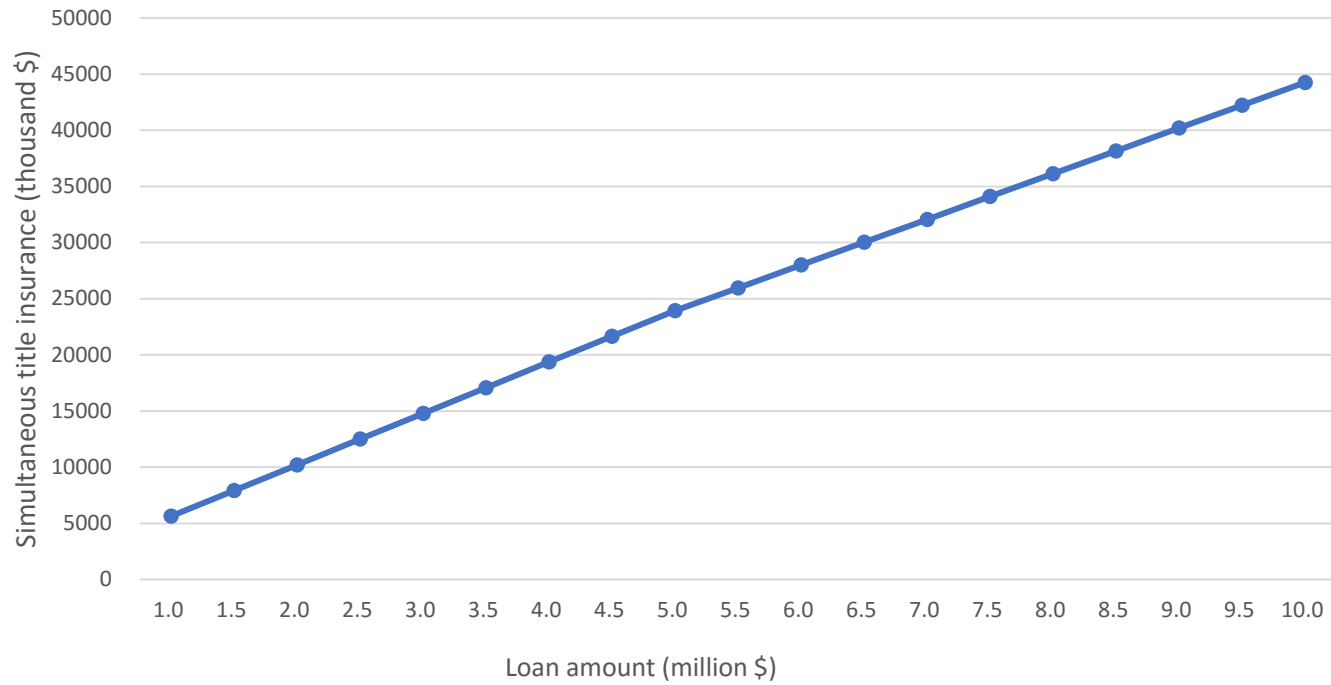


Figure 28 New York's Lender's title insurance by Amount

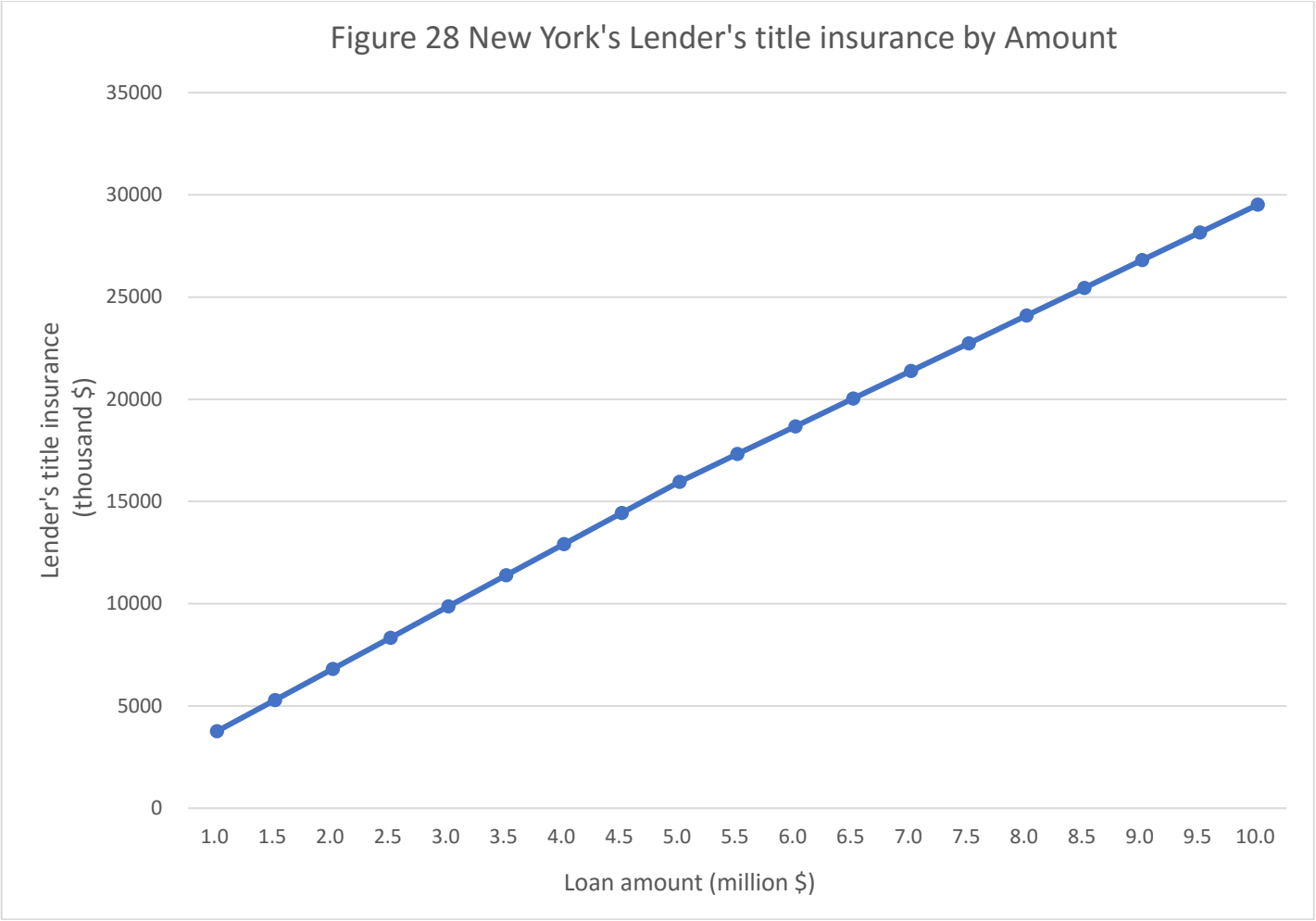


Figure 29 Pennsylvania's Simultaneous Title Insurance by Amount

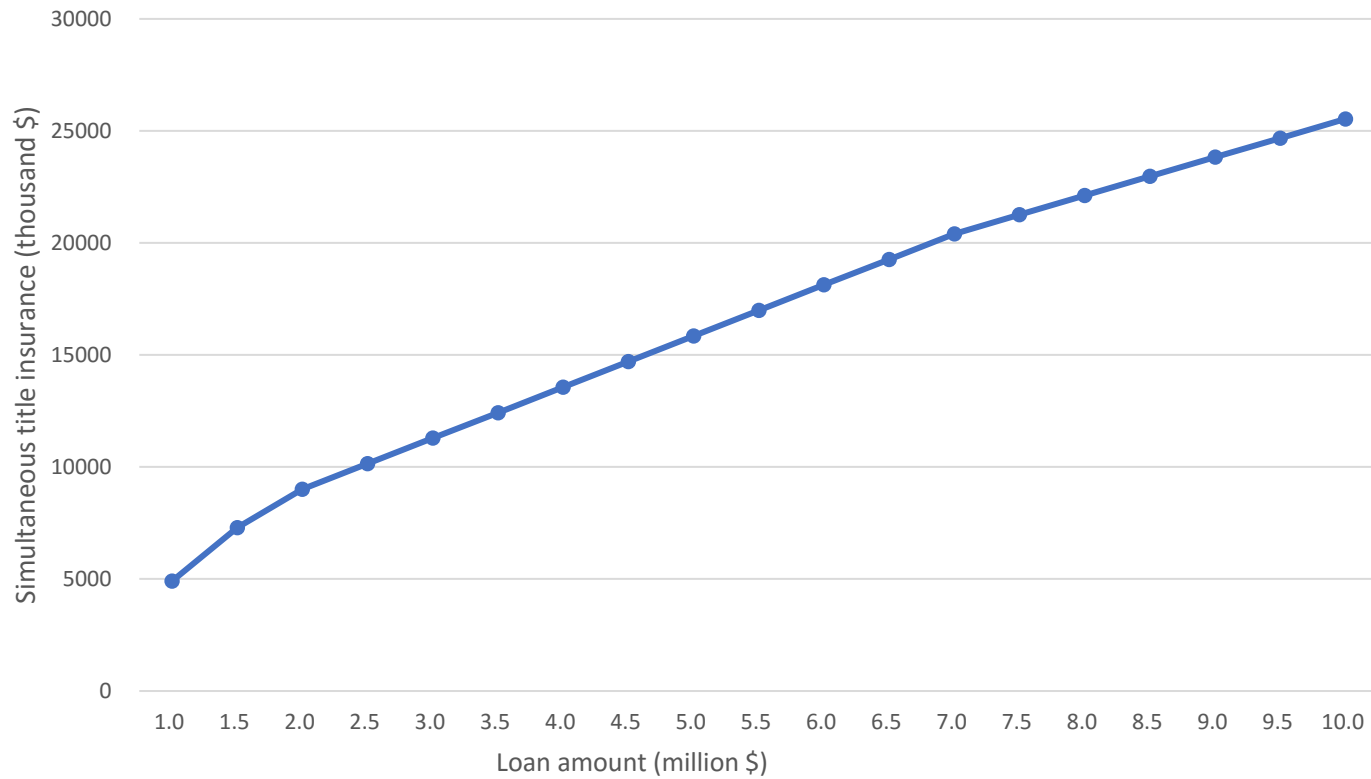


Figure 30 Pennsylvania's Lender's title insurance by Amount

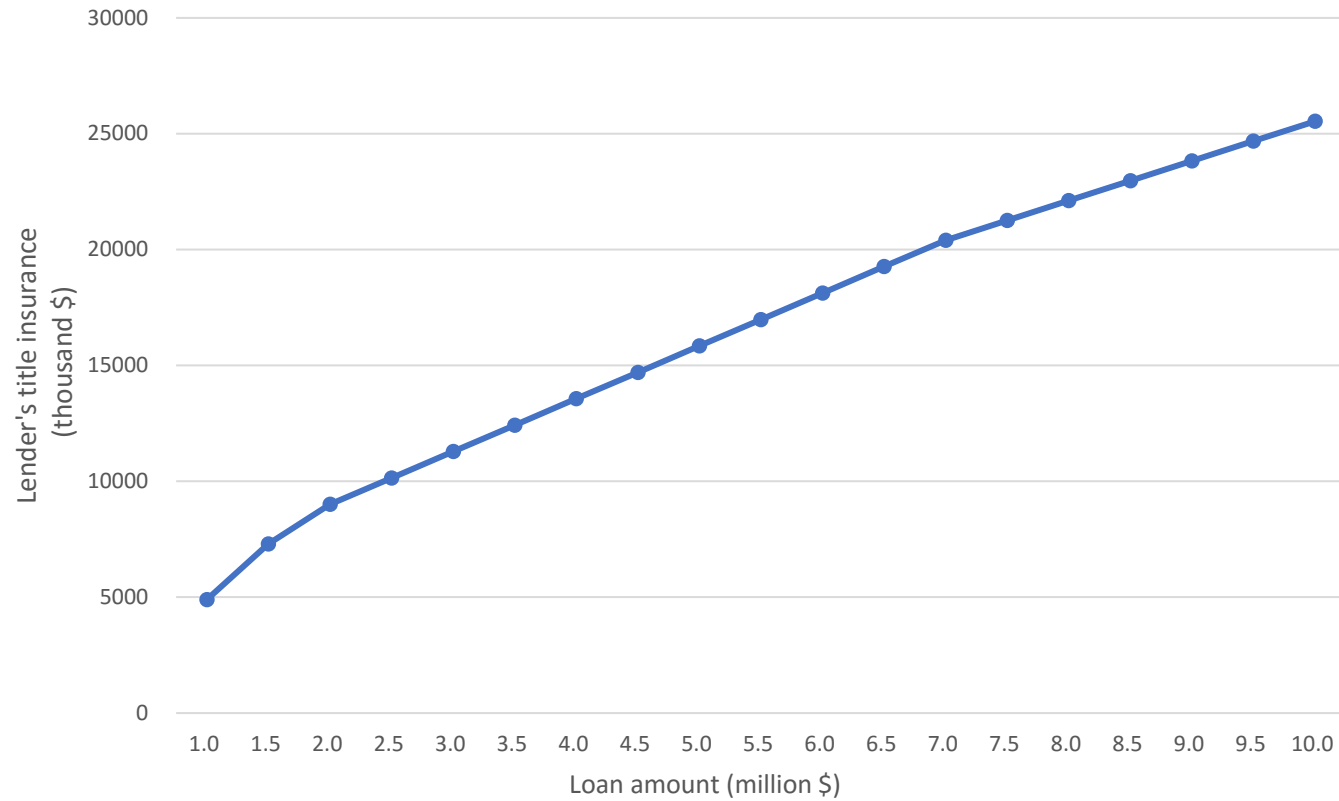


Figure 31 Tennessee's Simultaneous Title Insurance by Amount

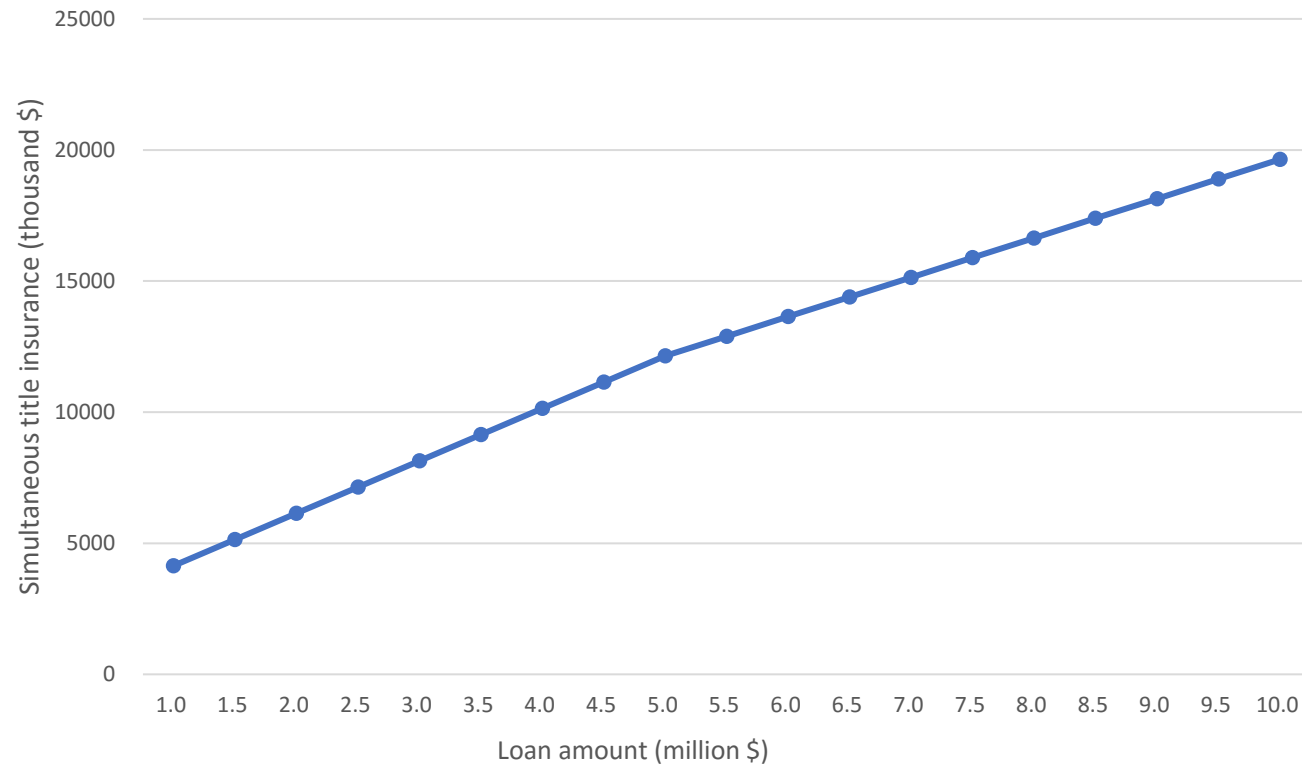


Figure 32 Tennessee's Lender's title insurance by Amount

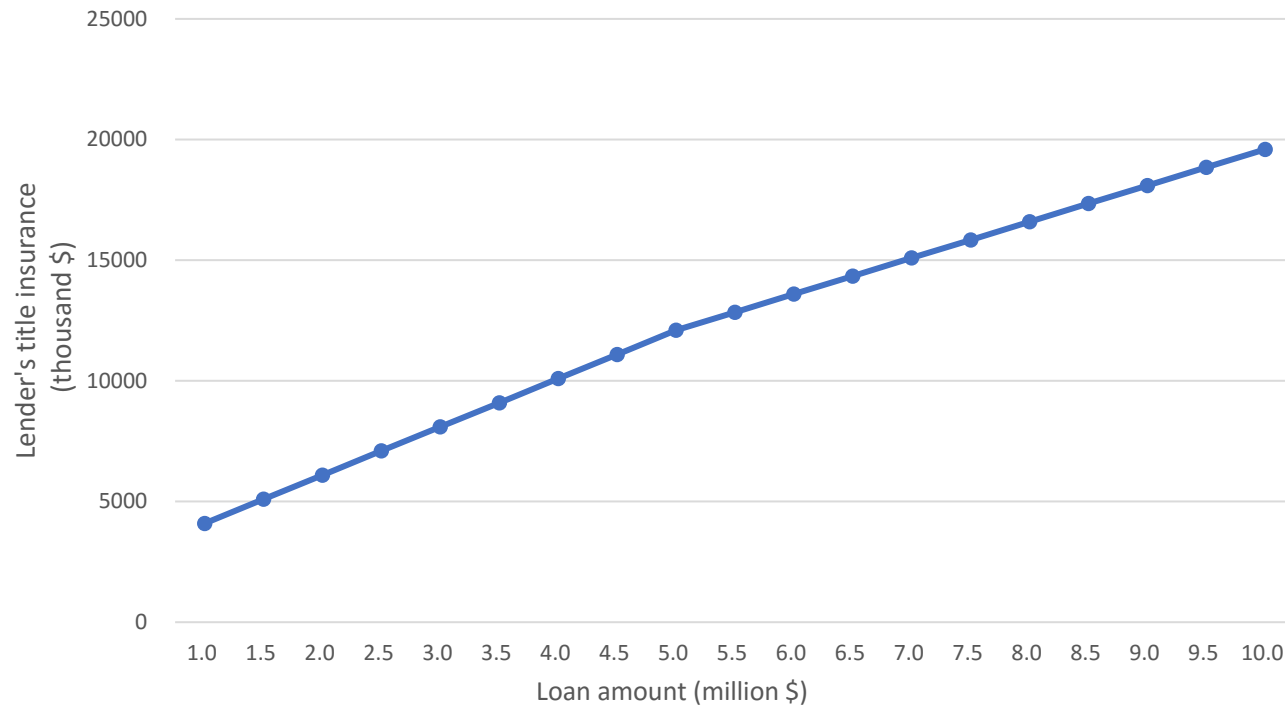


Figure 33 Texas's Simultaneous Title Insurance by Amount

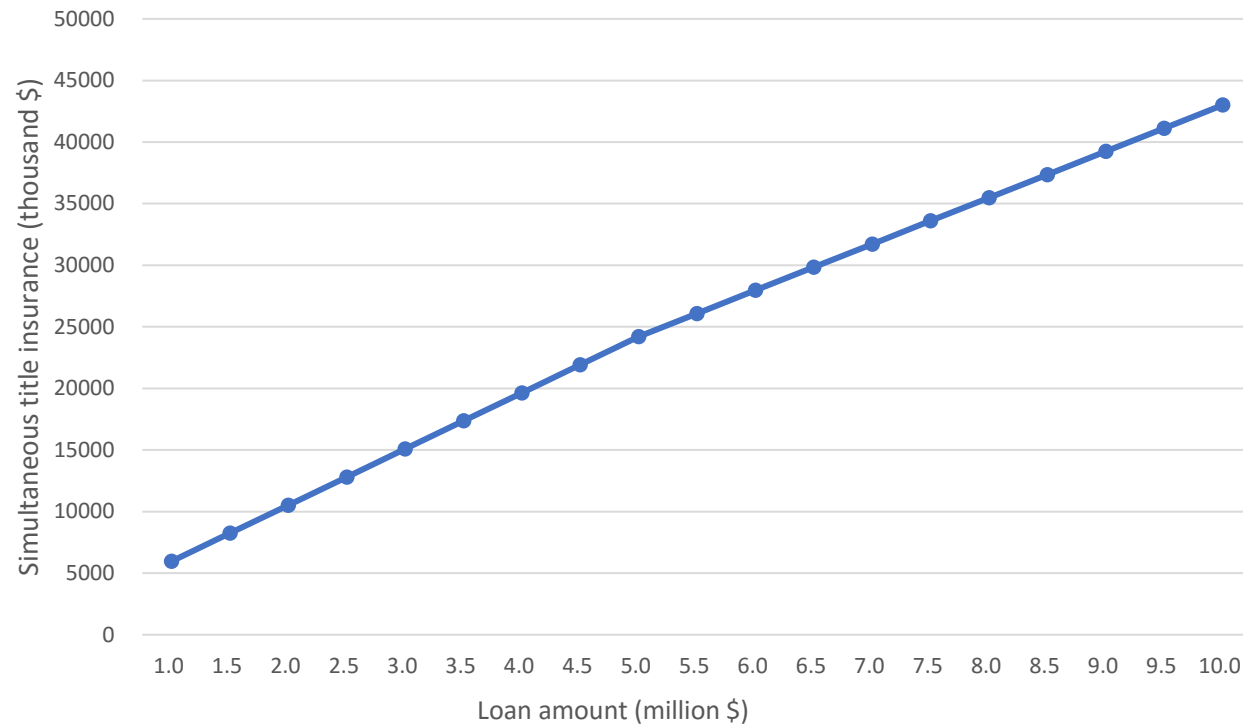


Figure 34 Texas's Lender's title insurance by Amount

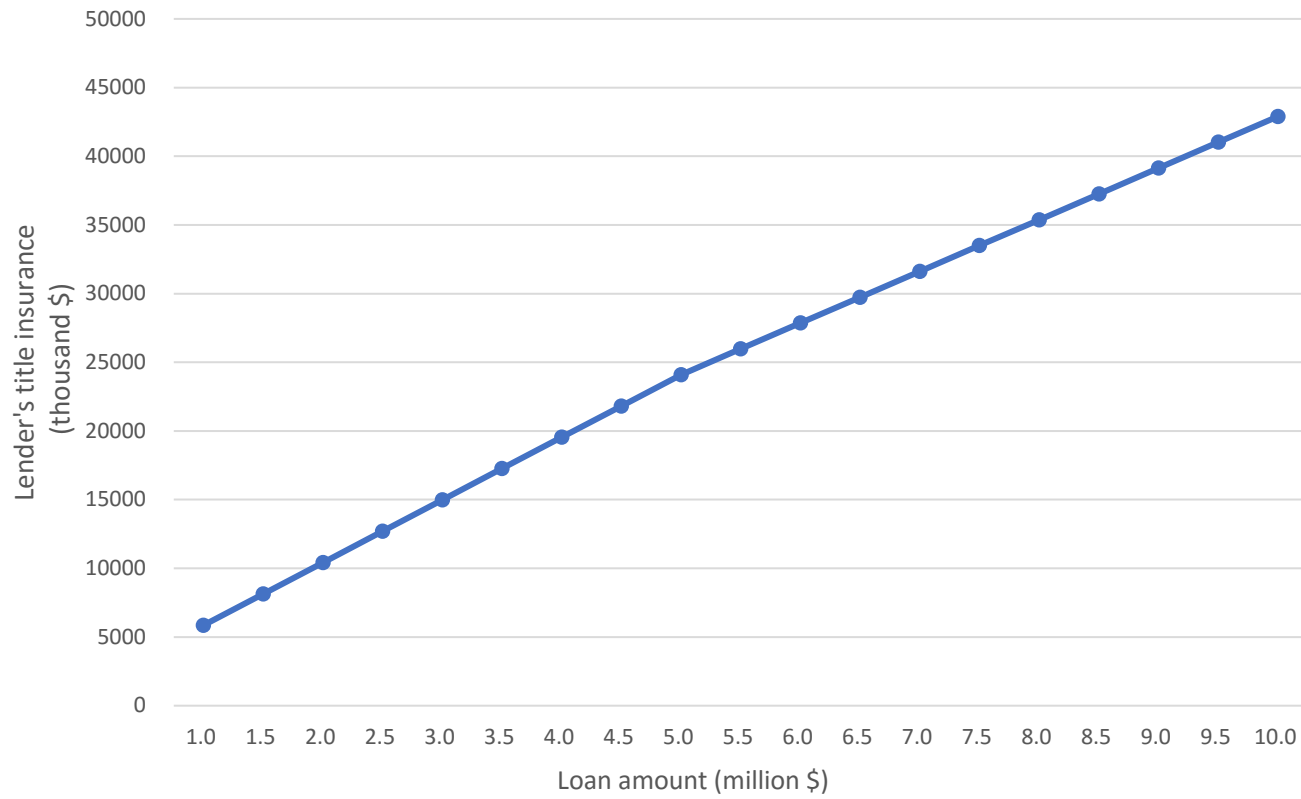


Figure 35 Illinois's Simultaneous Title Insurance by Amount

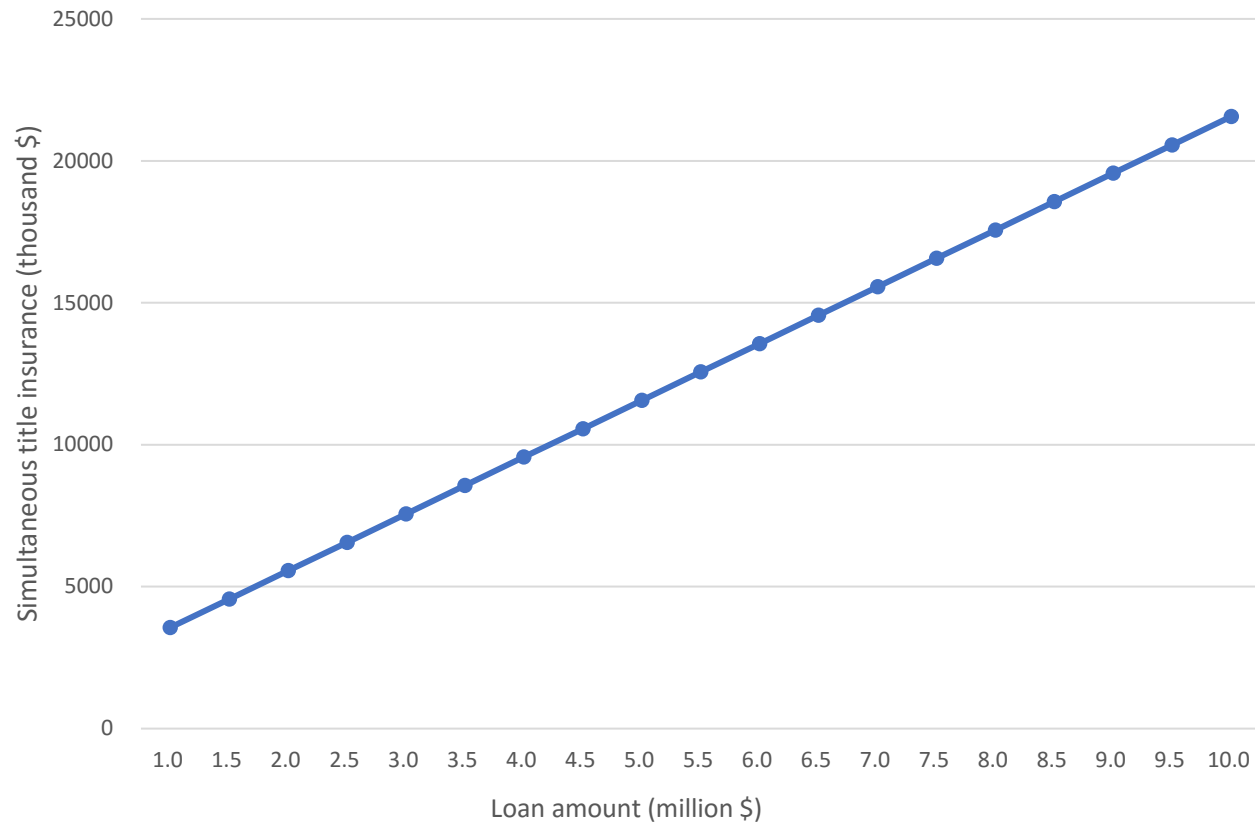


Figure 36 Illinois's Lender's title insurance by Amount

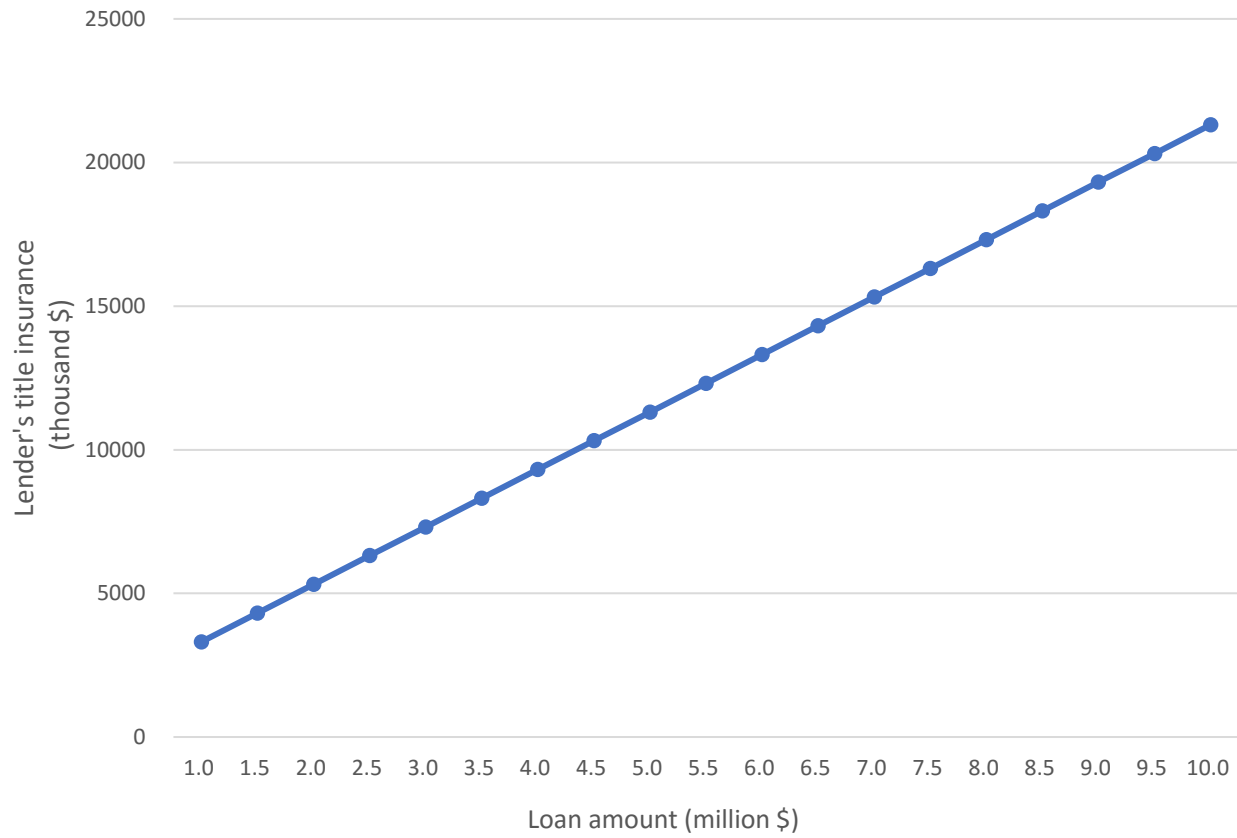


Figure 37 Kansas's Simultaneous Title Insurance by Amount

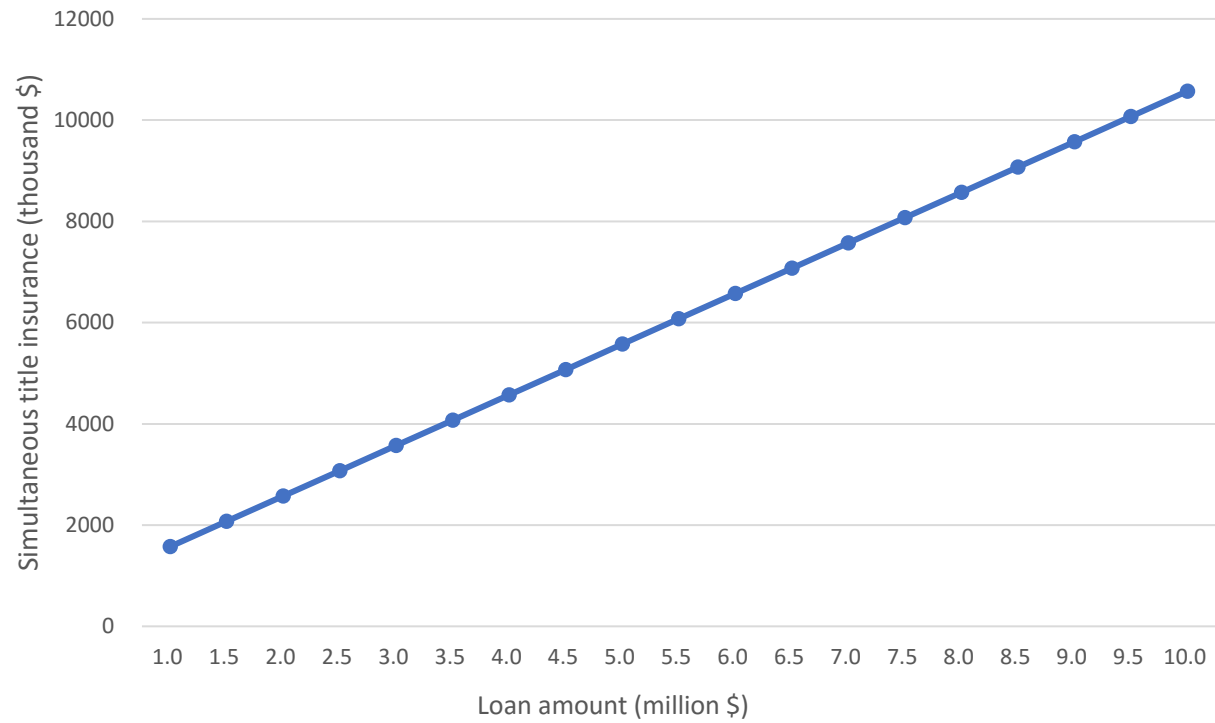


Figure 38 Kansas's Lender's title insurance by Amount

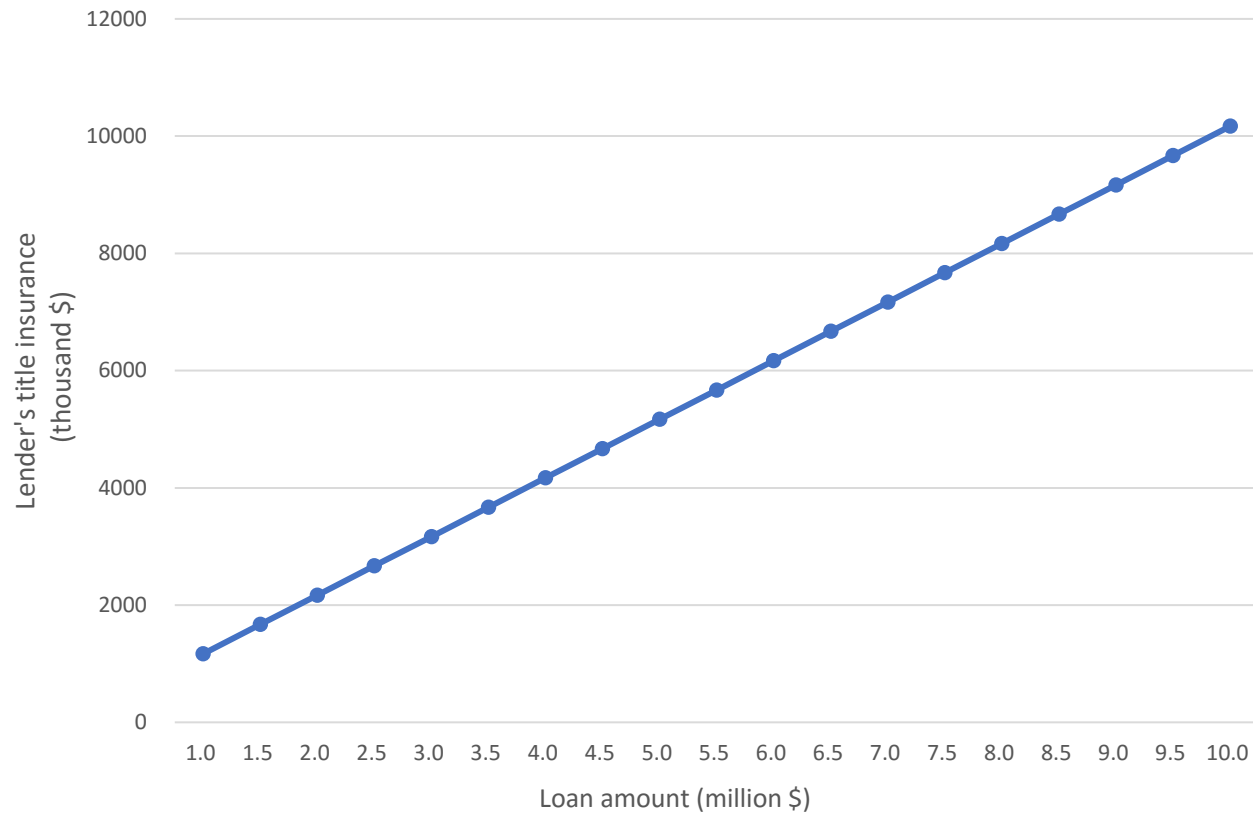


Figure 39 Estimated Function of Lender's Premium in Florida

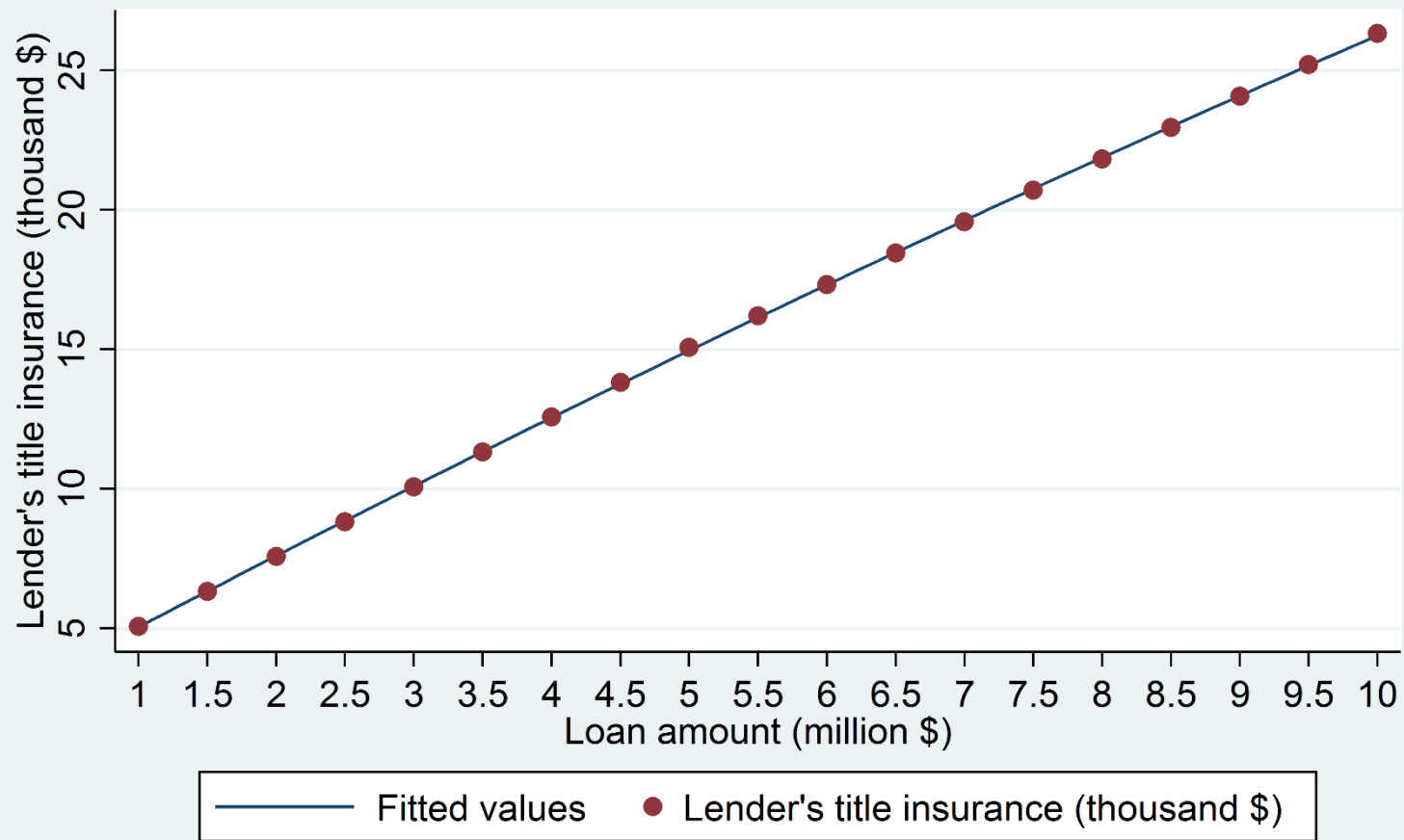


Figure 40 Estimated Function of Lender's Premium in Indiana

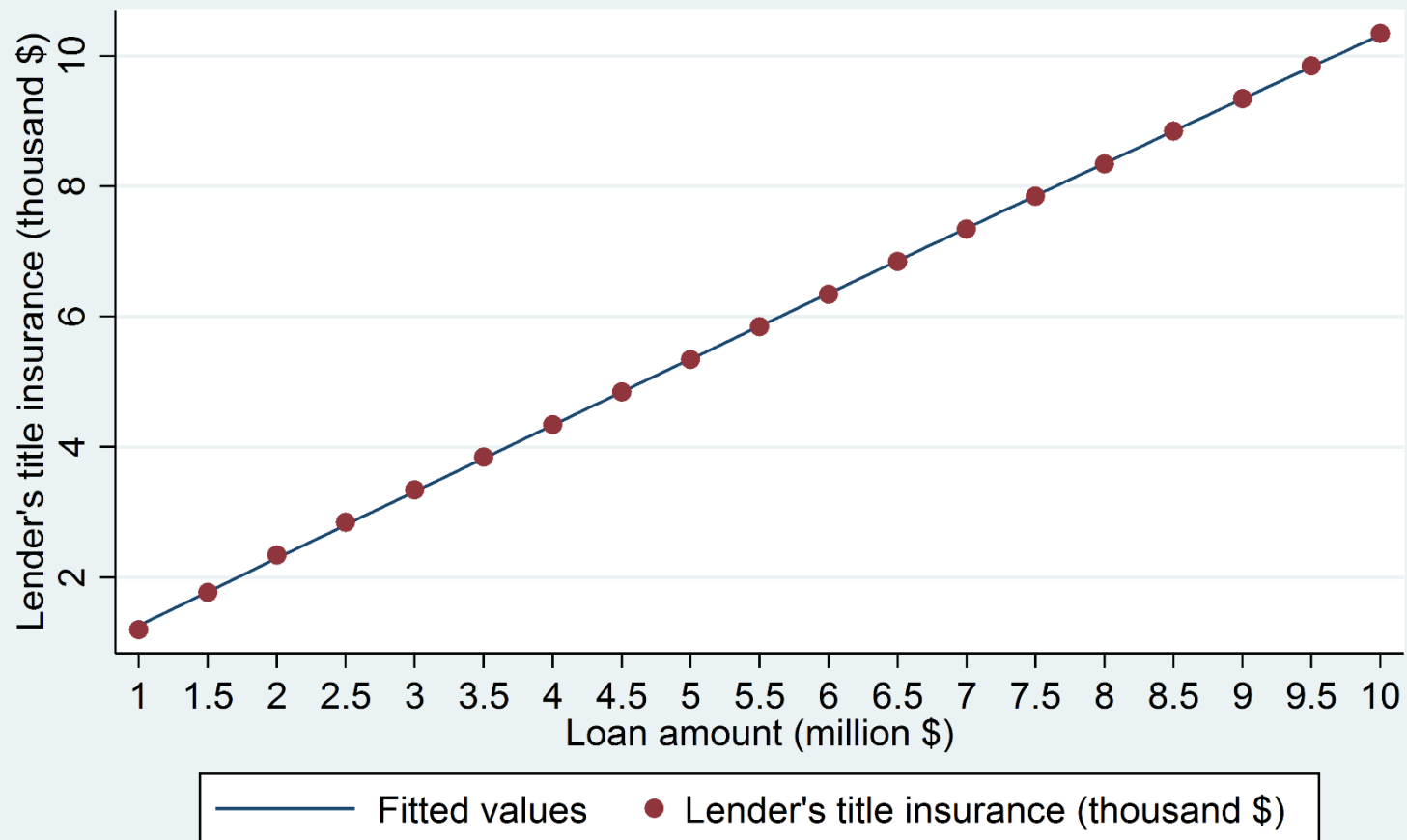


Figure 41 Estimated Function of Lender's Premium in Iowa

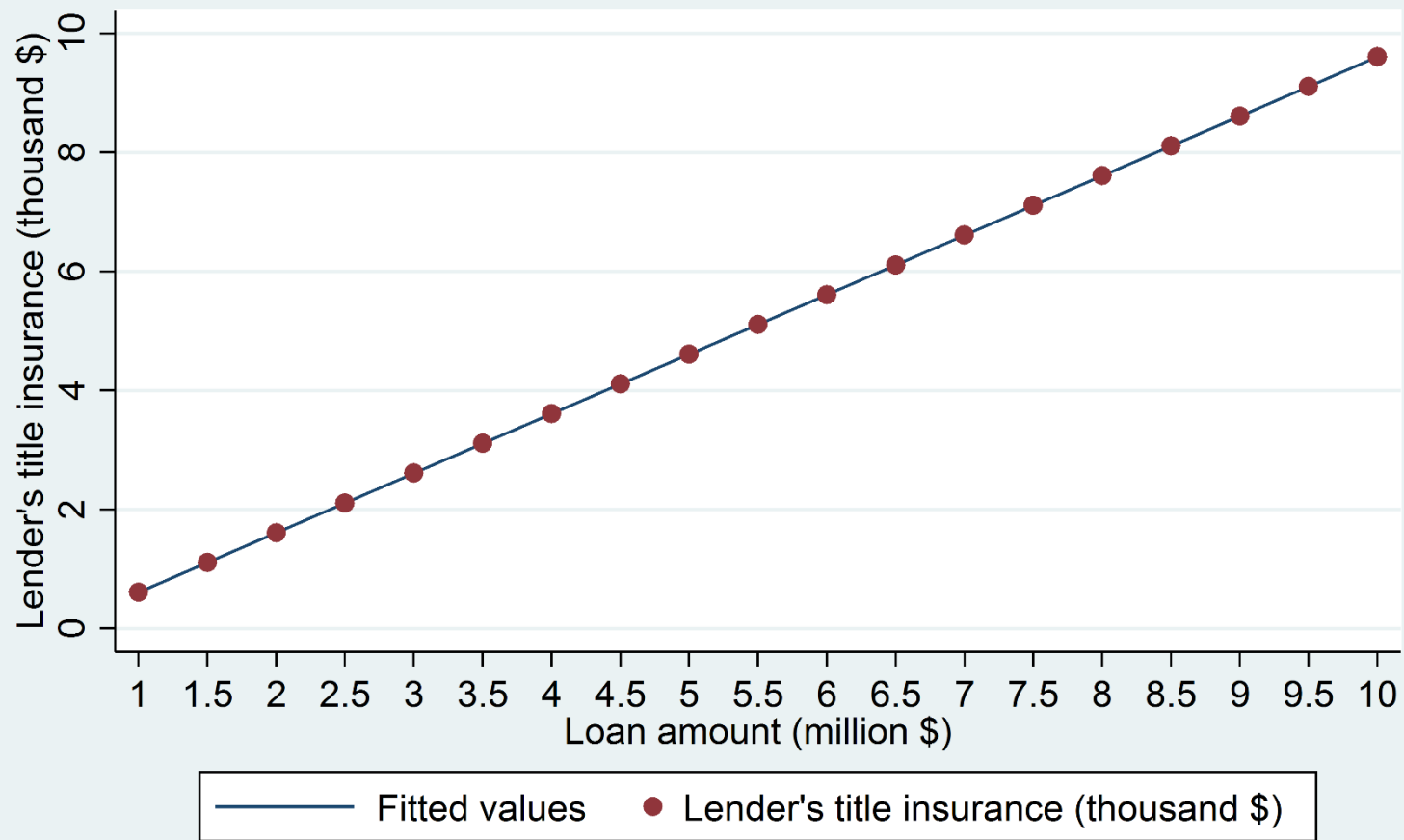


Figure 42 Estimated Function of Lender's Premium in New Mexico

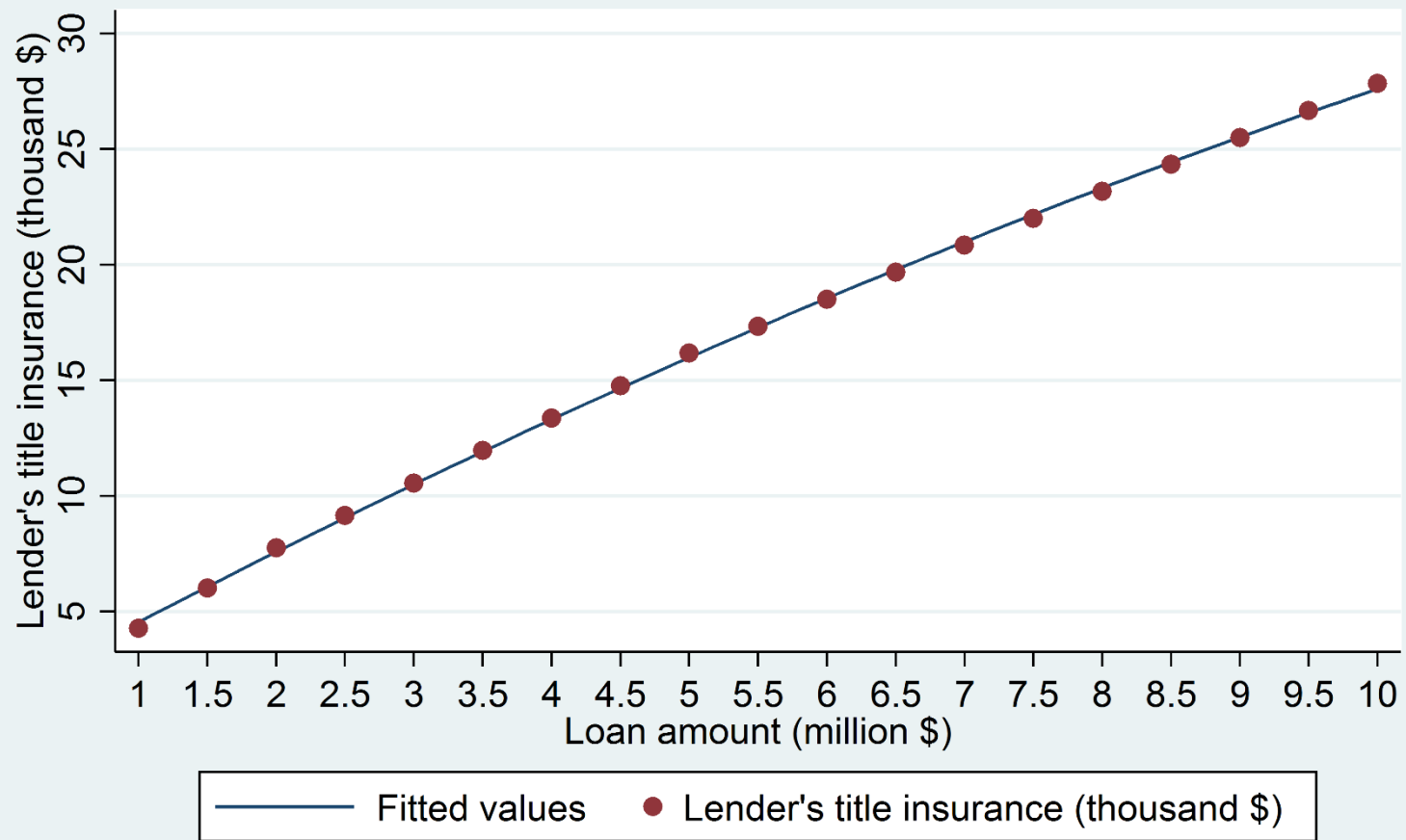


Figure 43 Estimated Function of Lender's Premium in New York

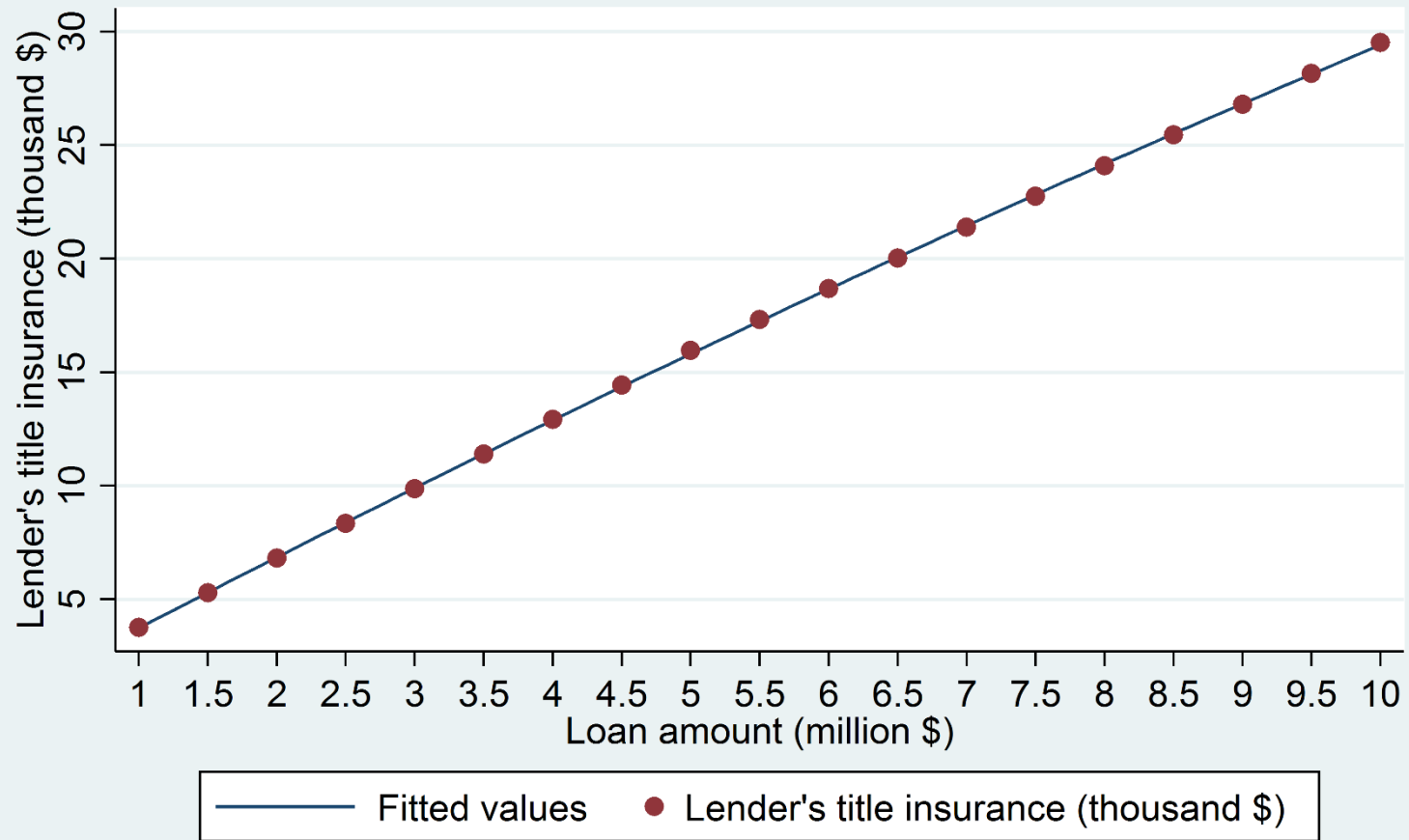


Figure 44 Estimated Function of Lender's Premium in Pennsylvania

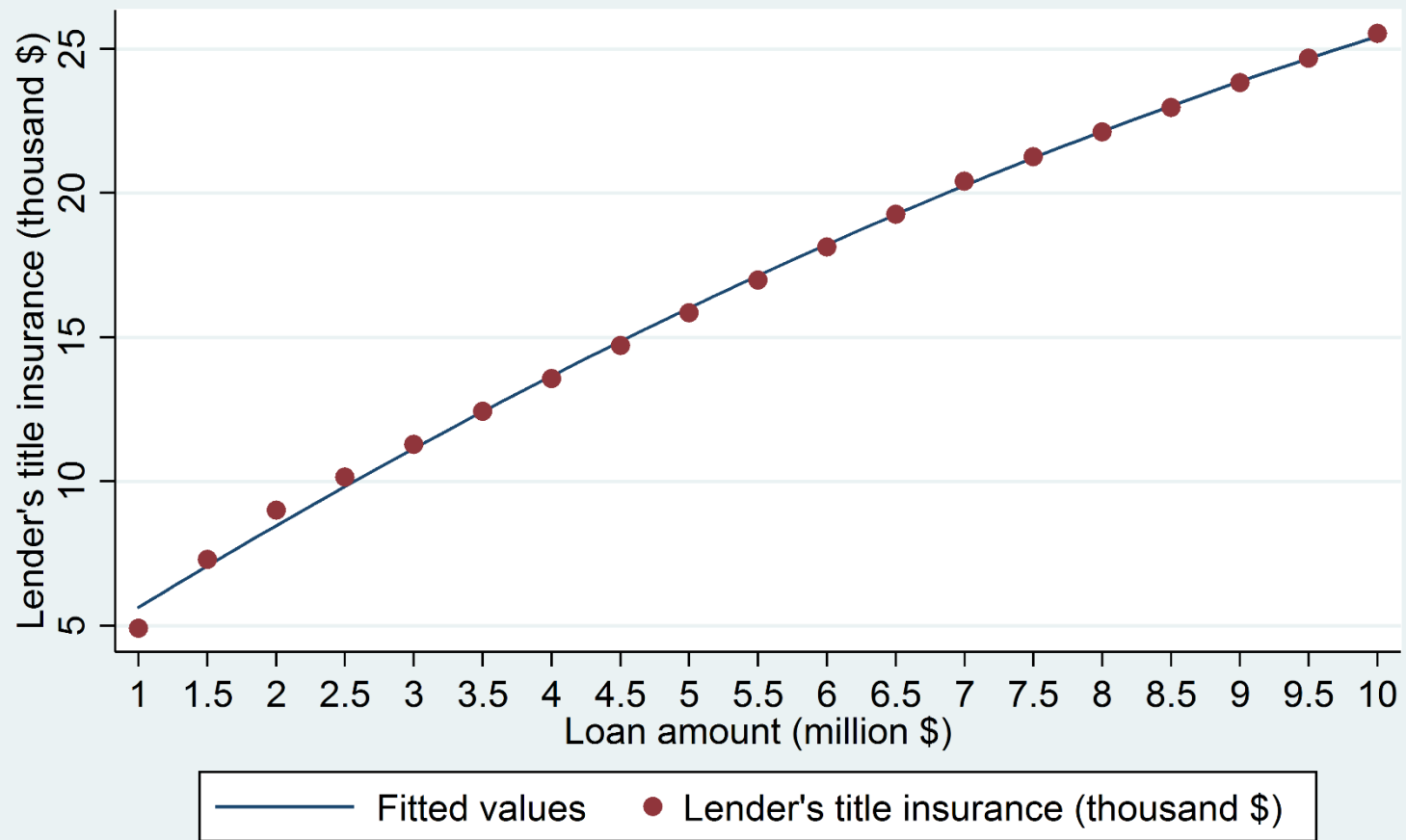


Figure 45 Estimated Function of Lender's Premium in Tennessee

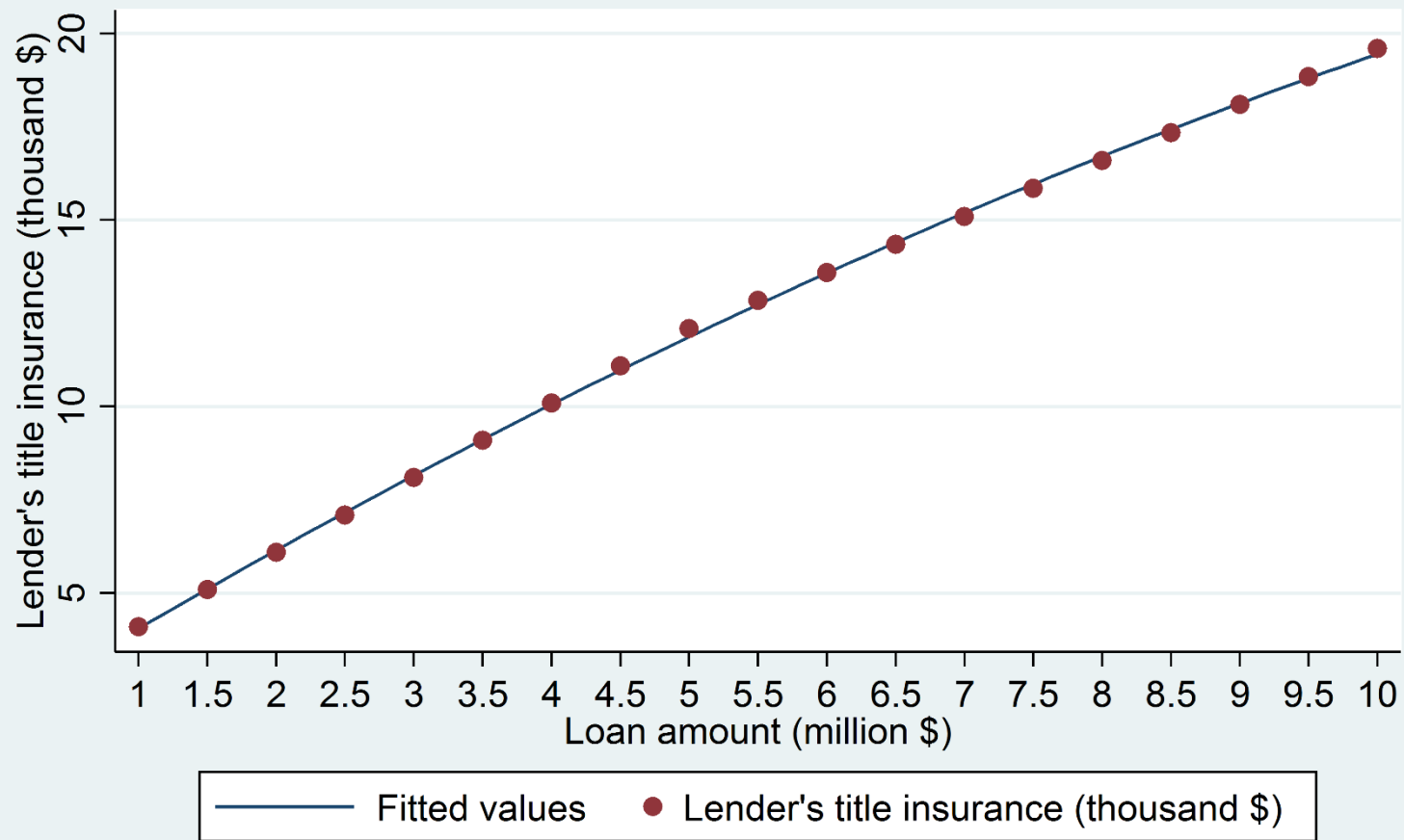


Figure 46 Estimated Function of Lender's Premium in Texas

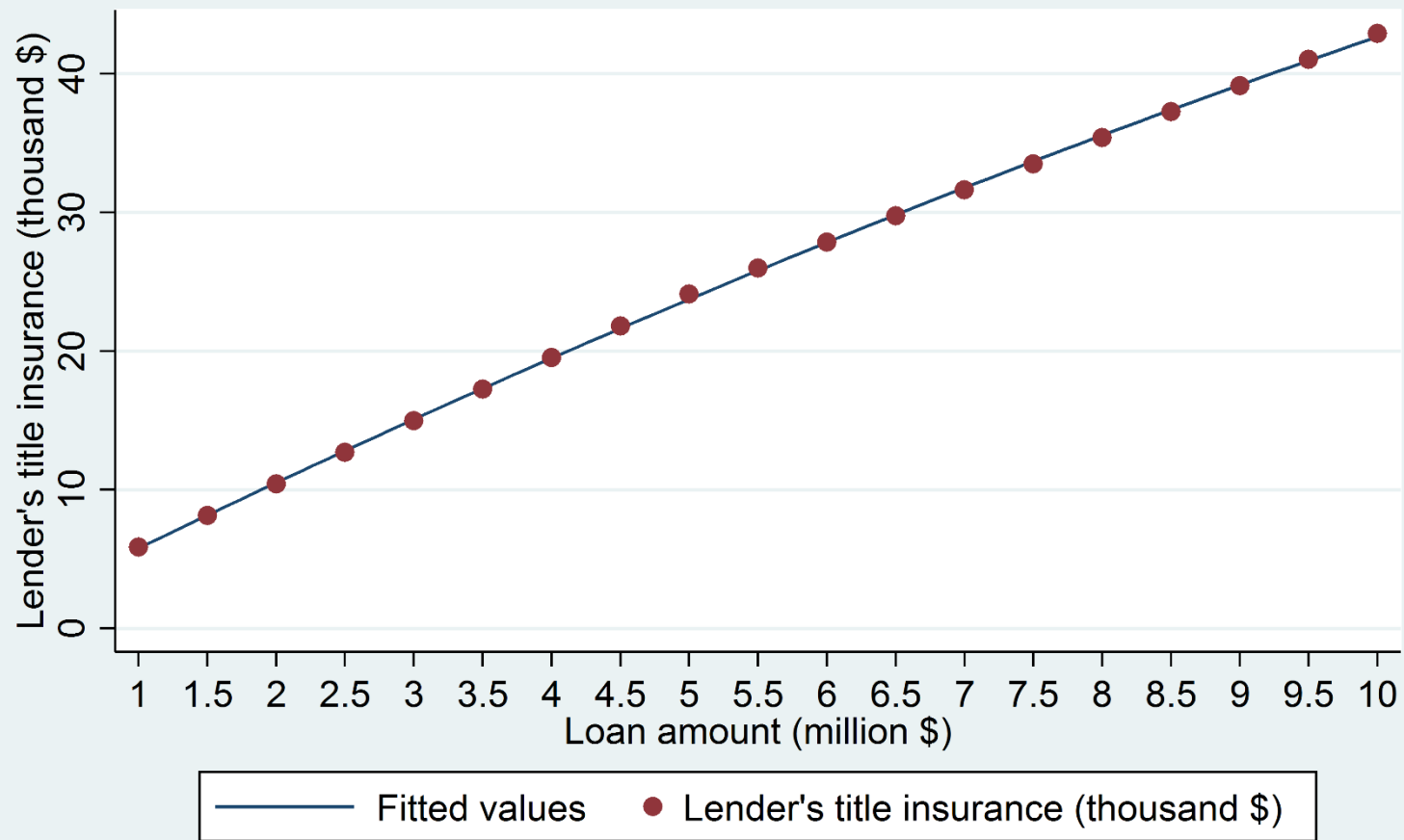


Figure 47 Estimated Function of Lender's Premium in Illinois

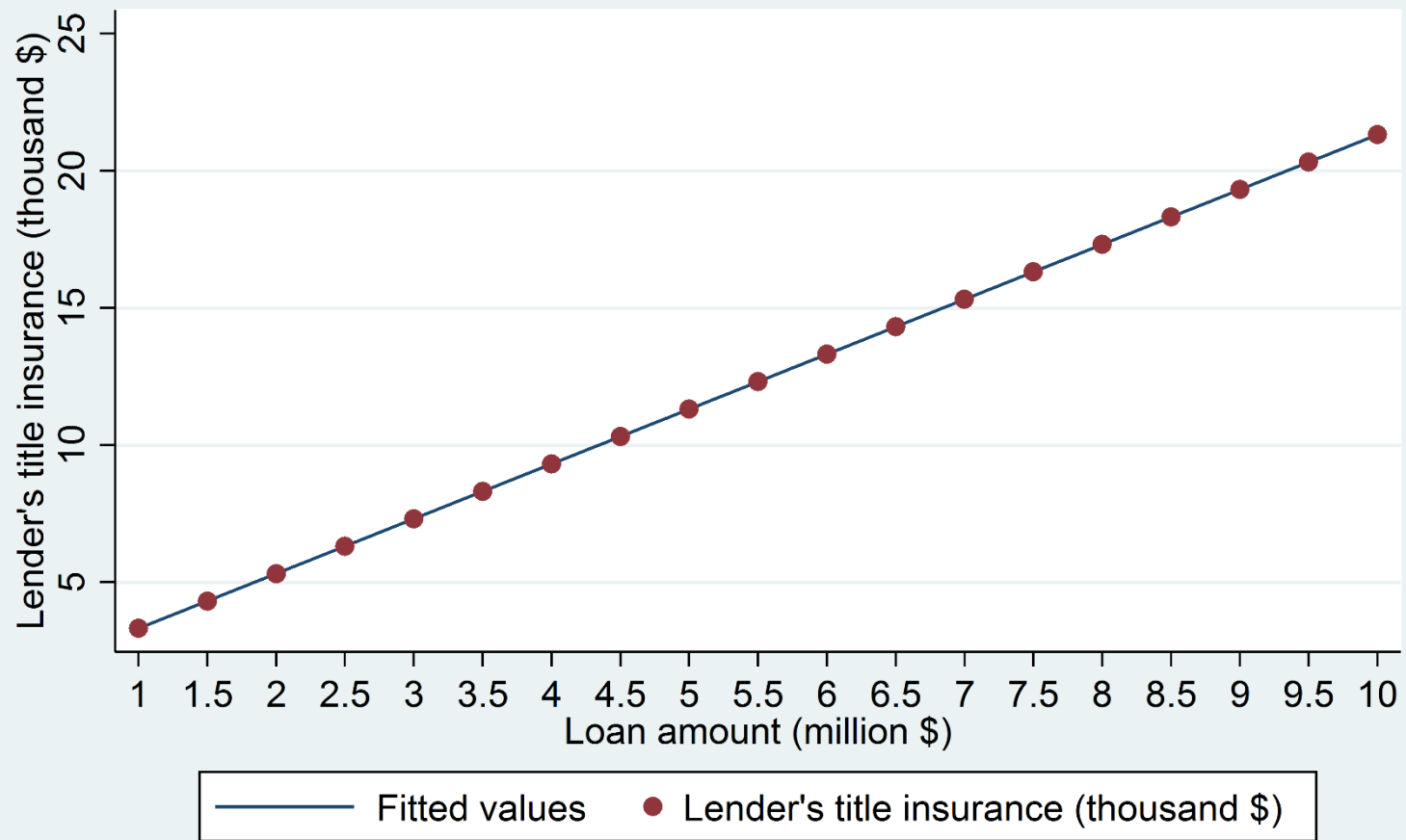


Figure 48 Estimated Function of Lender's Premium in Kansas

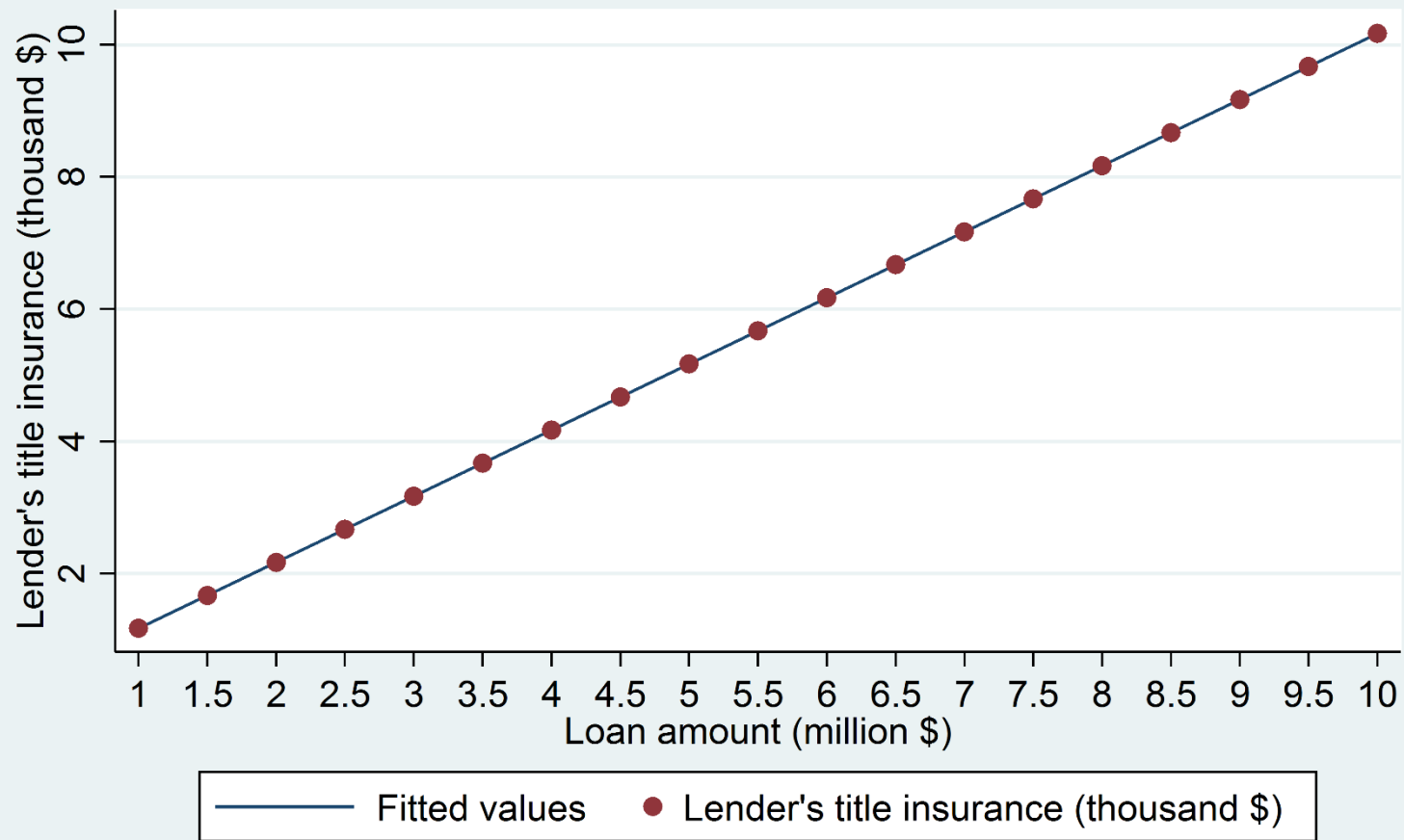


Figure 49 Estimated Function of Simultaneous Premium in Florida

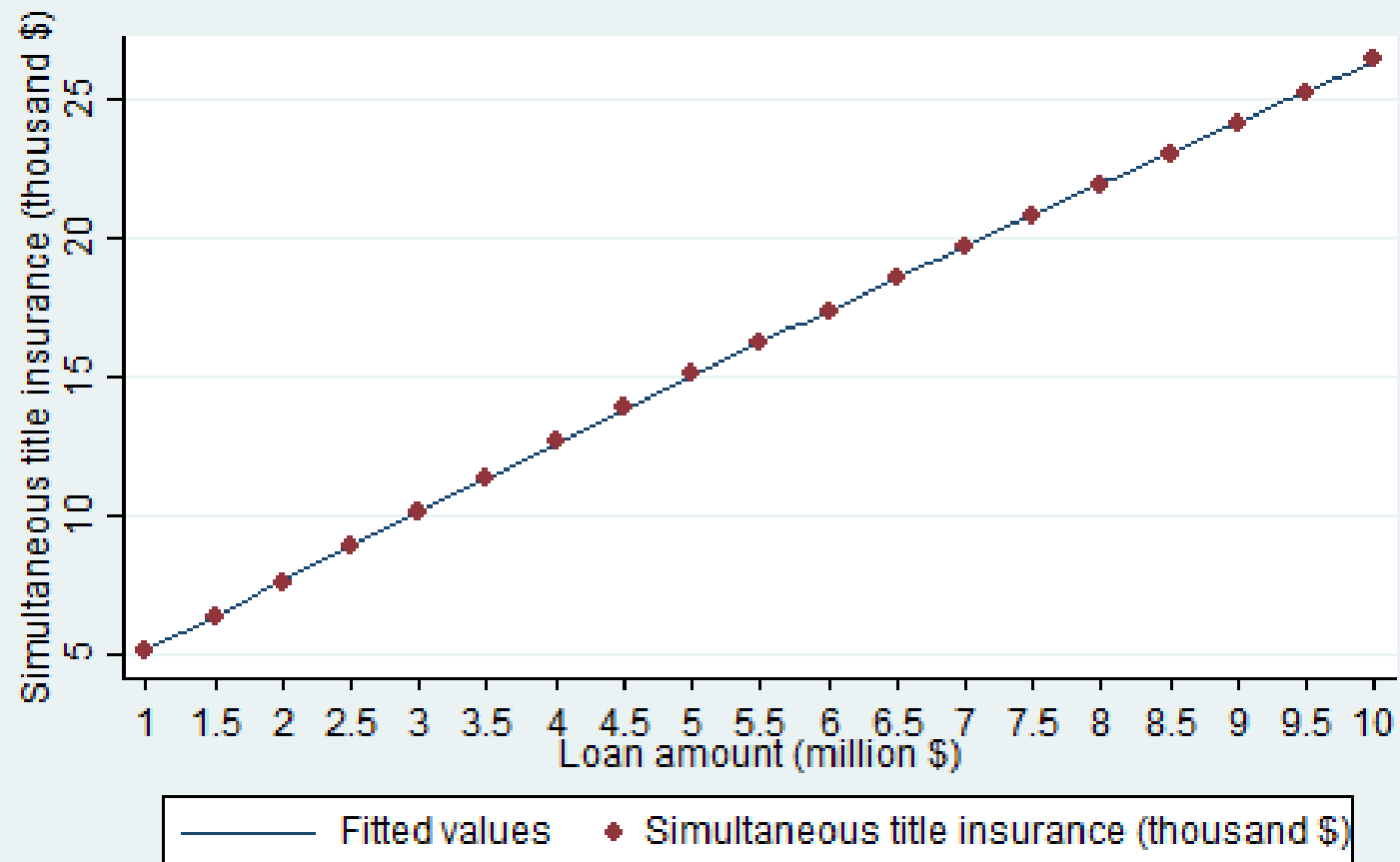


Figure 50 Estimated Function of Simultaneous Premium in Indiana

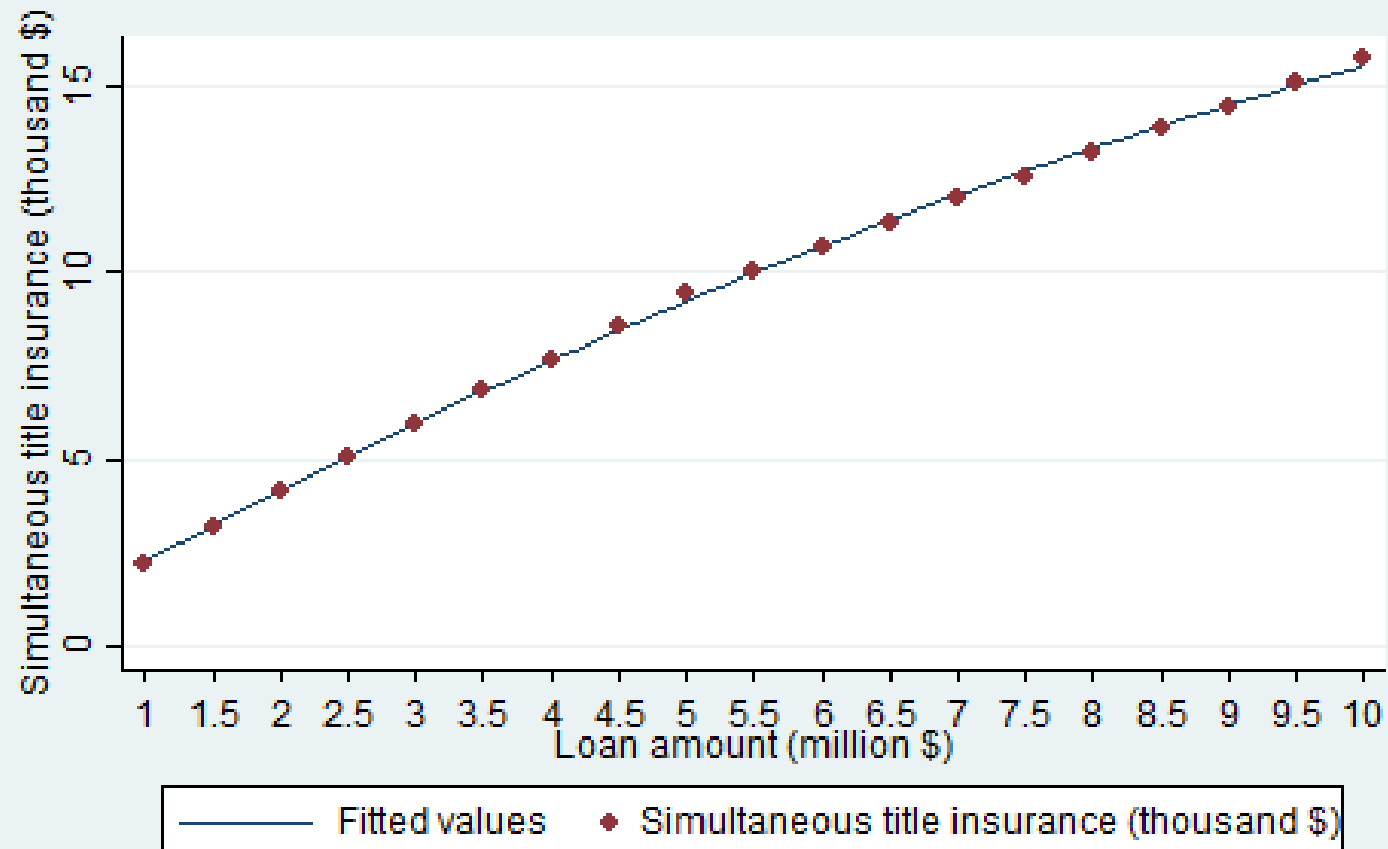


Figure 51 Estimated Function of Simultaneous Premium in Iowa

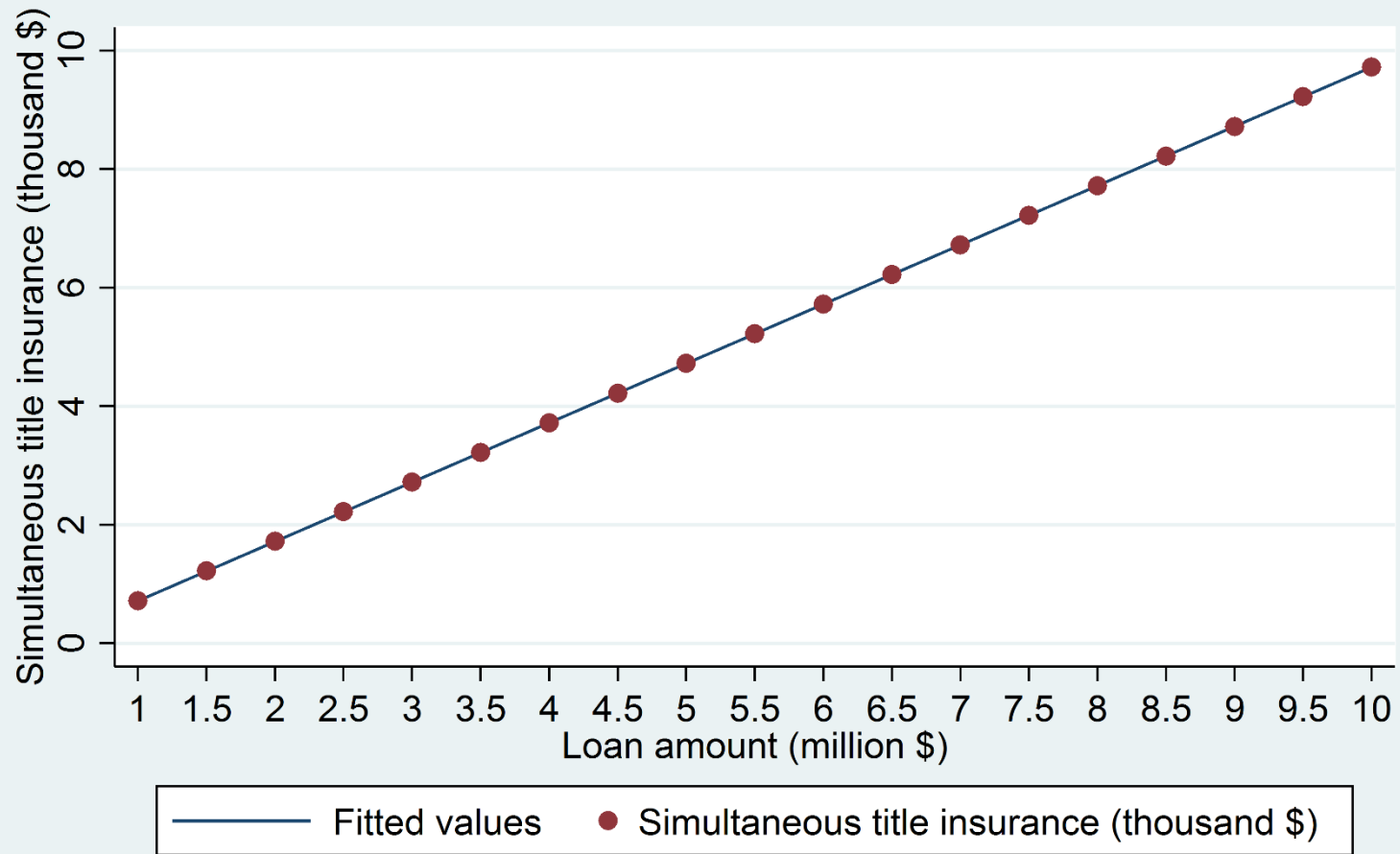


Figure 52 Estimated Function of Simultaneous Premium in New Mexico

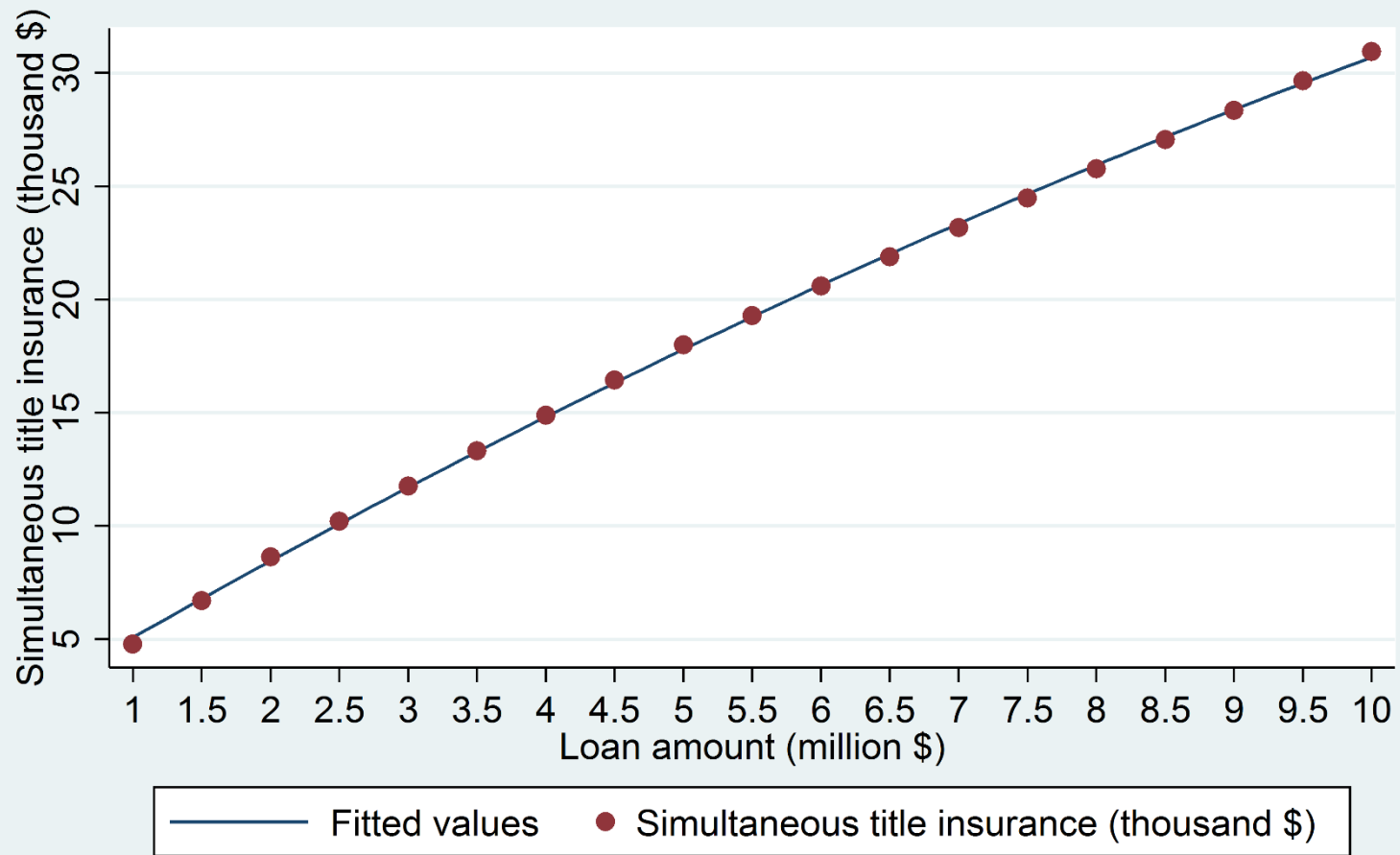


Figure 53 Estimated Function of Simultaneous Premium in New York

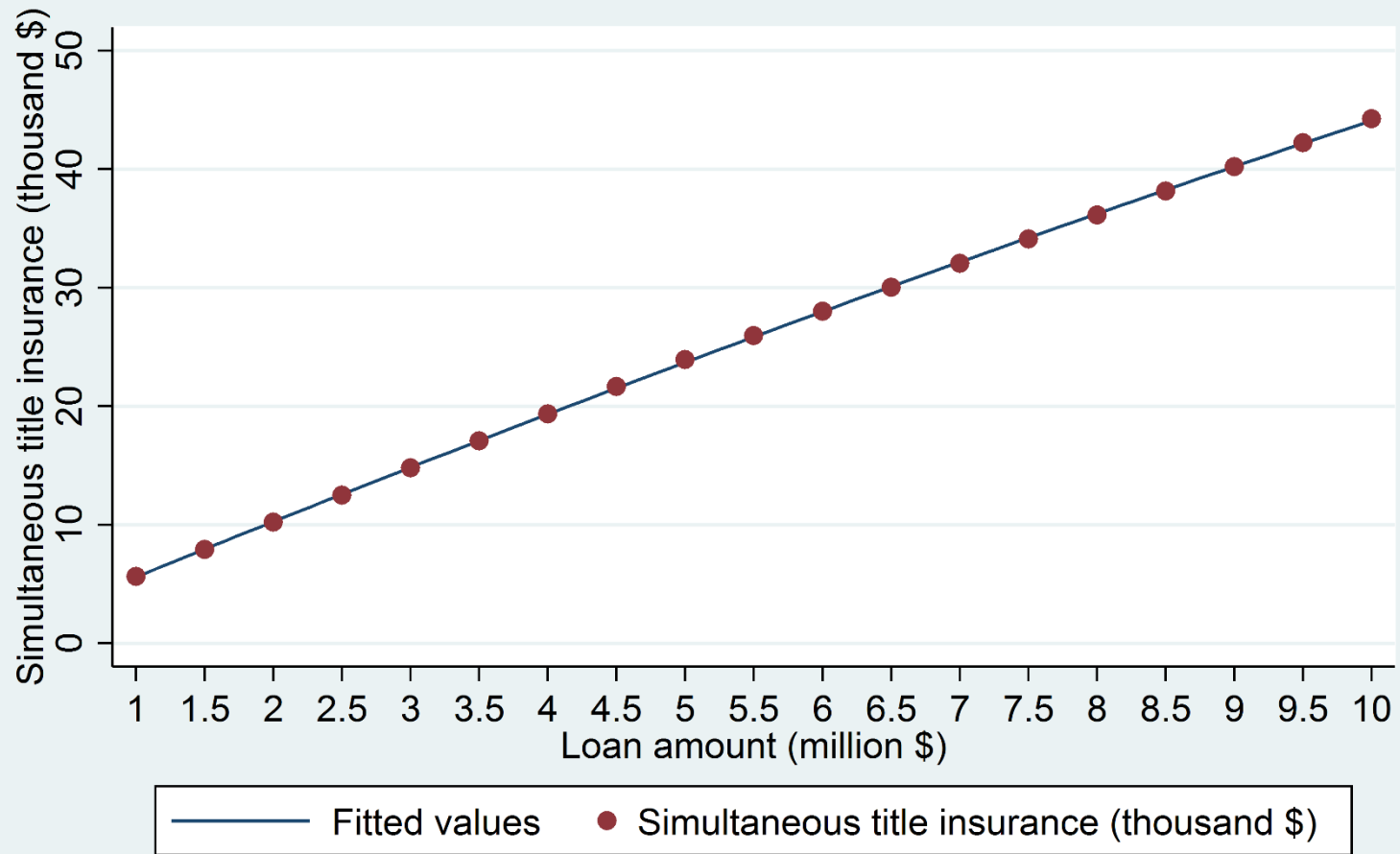


Figure 54 Estimated Function of Simultaneous Premium in Pennsylvania

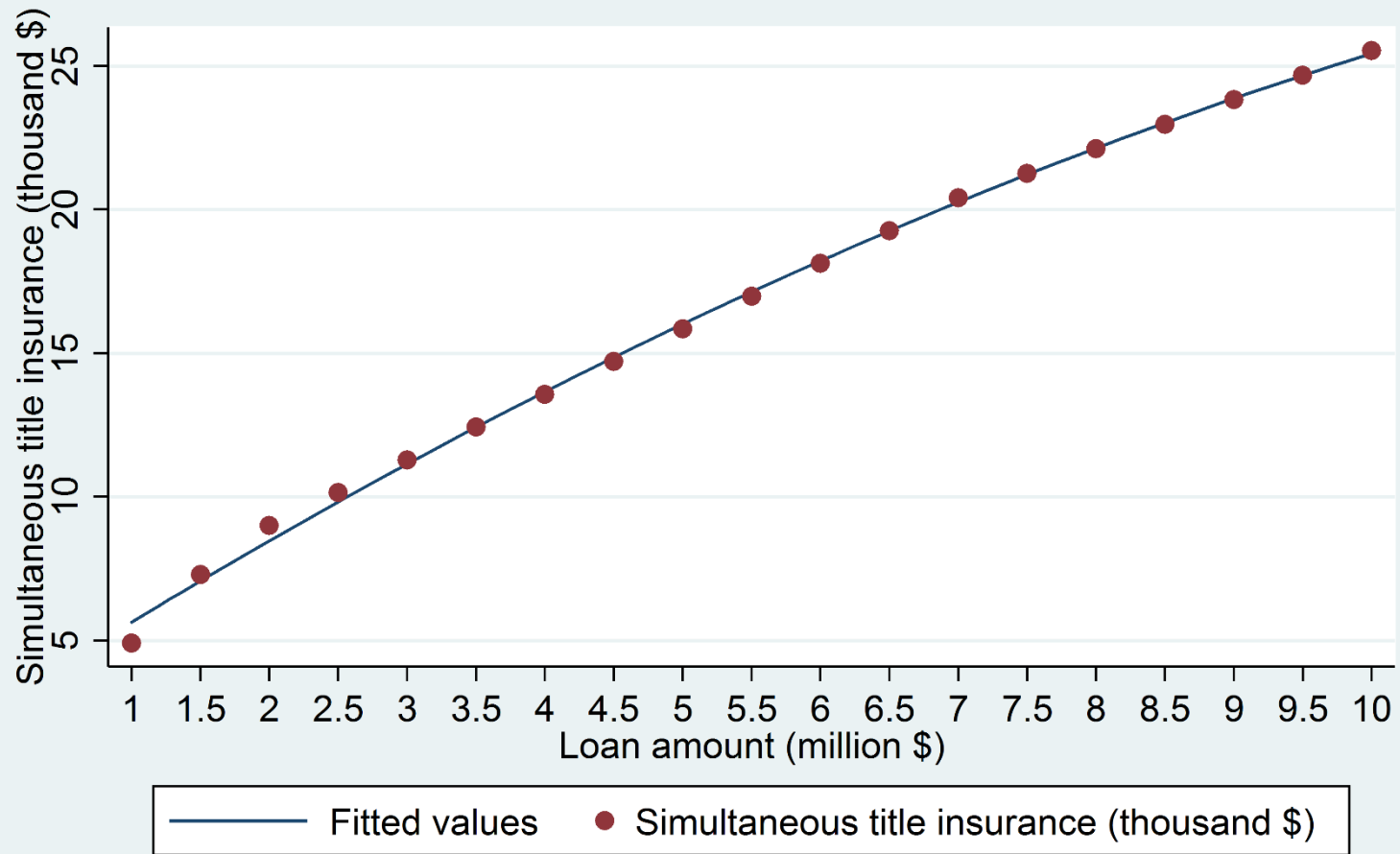


Figure 55 Estimated Function of Simultaneous Premium in Tennessee

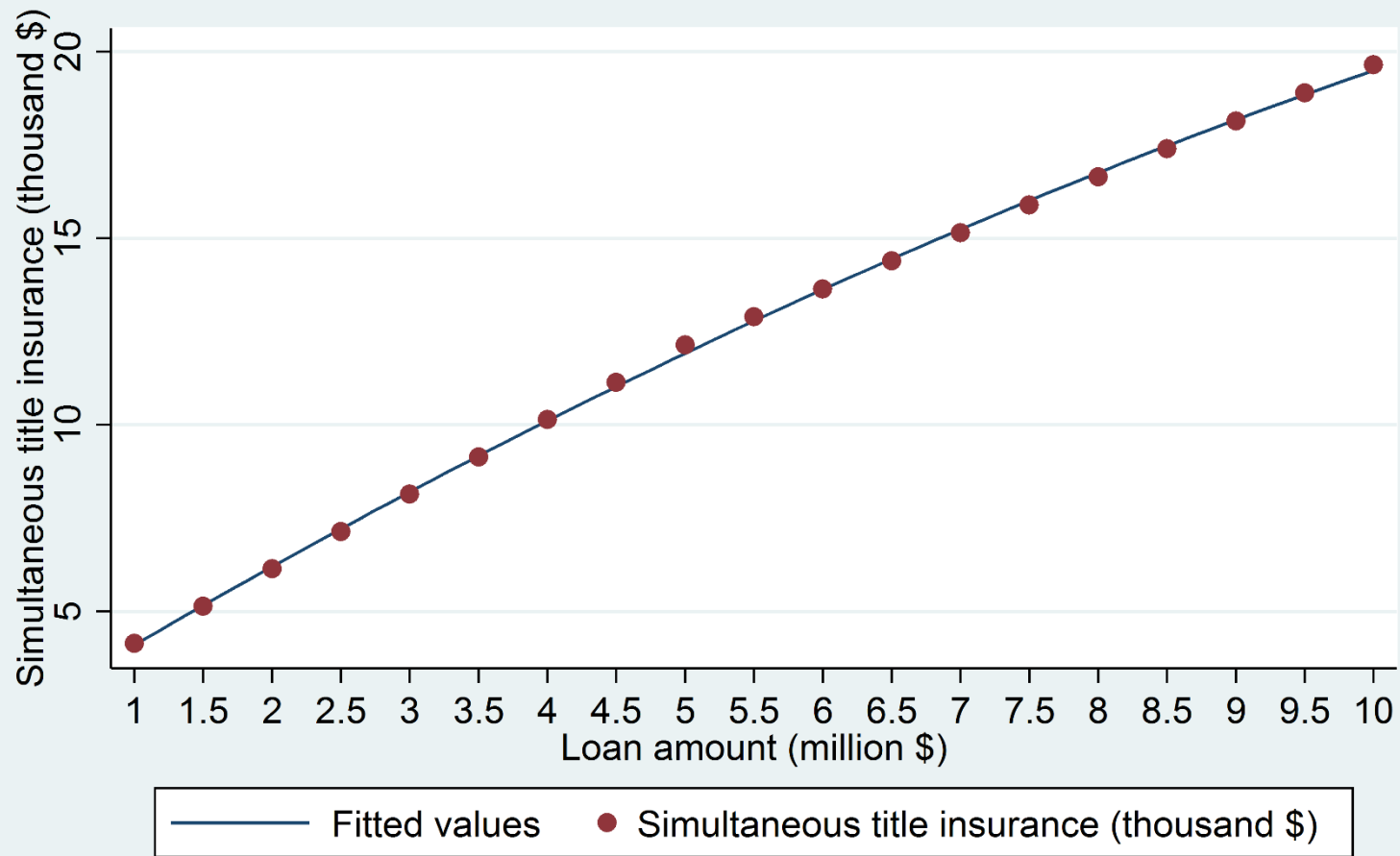


Figure 56 Estimated Function of Simultaneous Premium in Texas

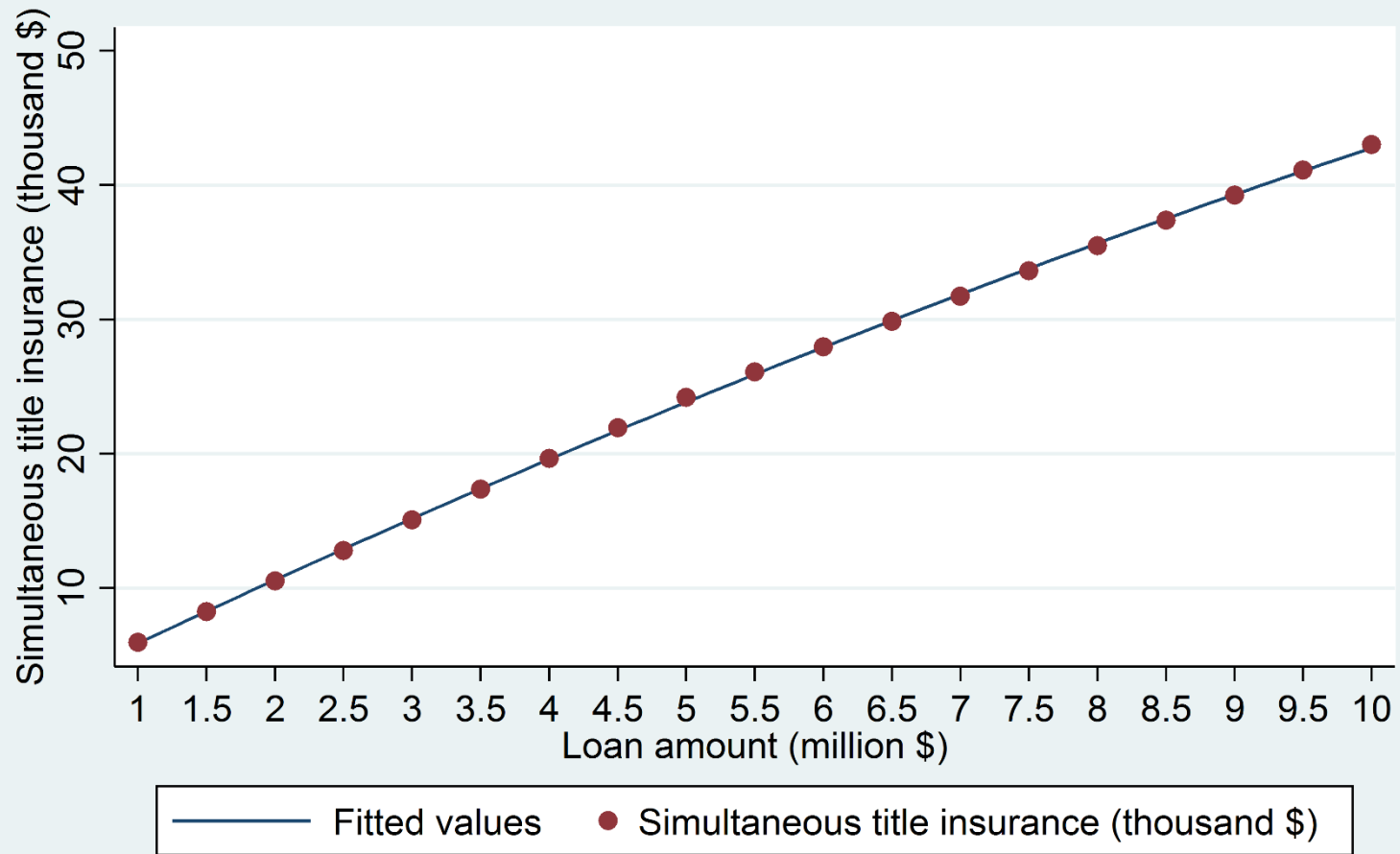


Figure 57 Estimated Function of Simultaneous Premium in Illinois

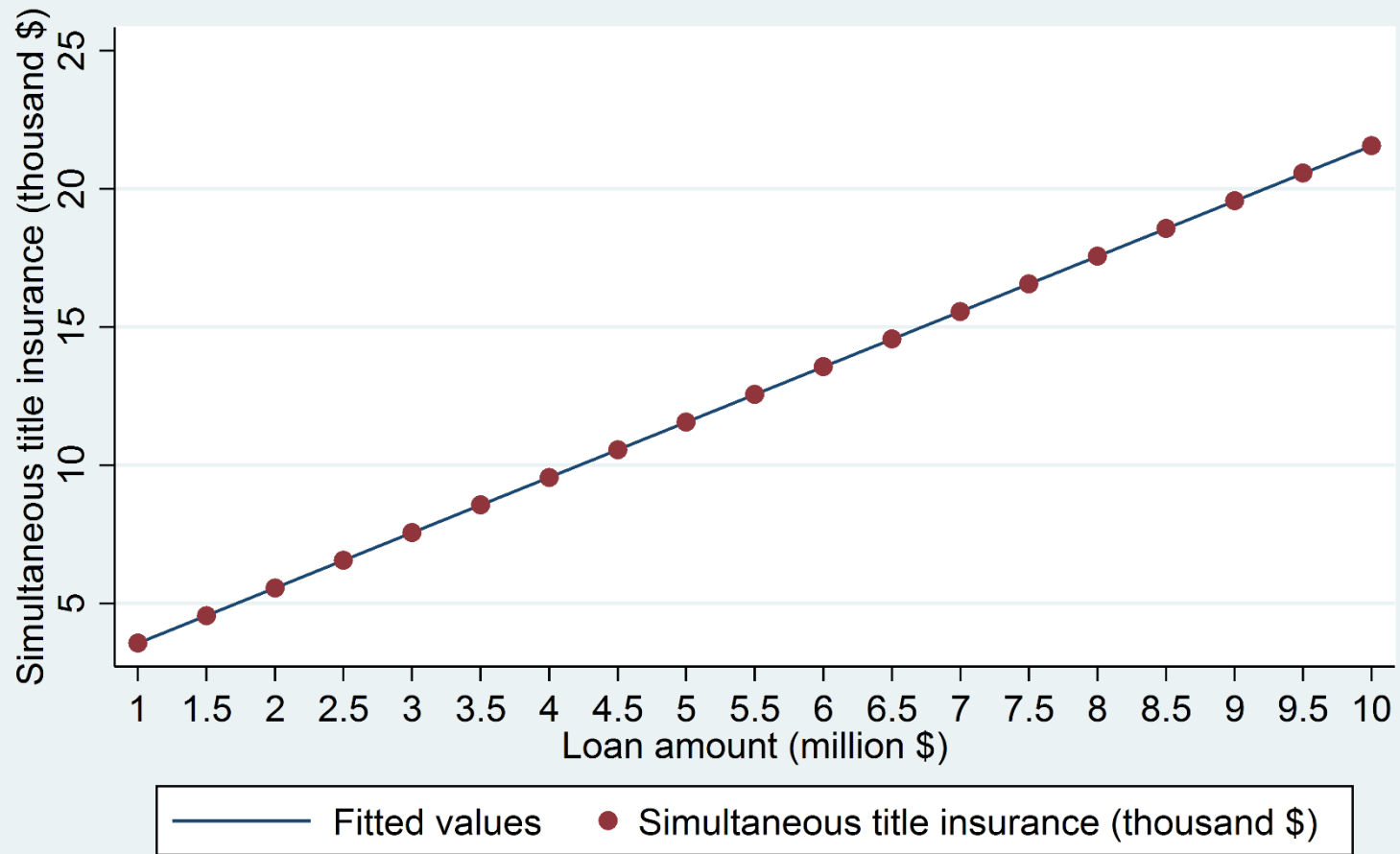


Figure 58 Estimated Function of Simultaneous Premium in Kansas

